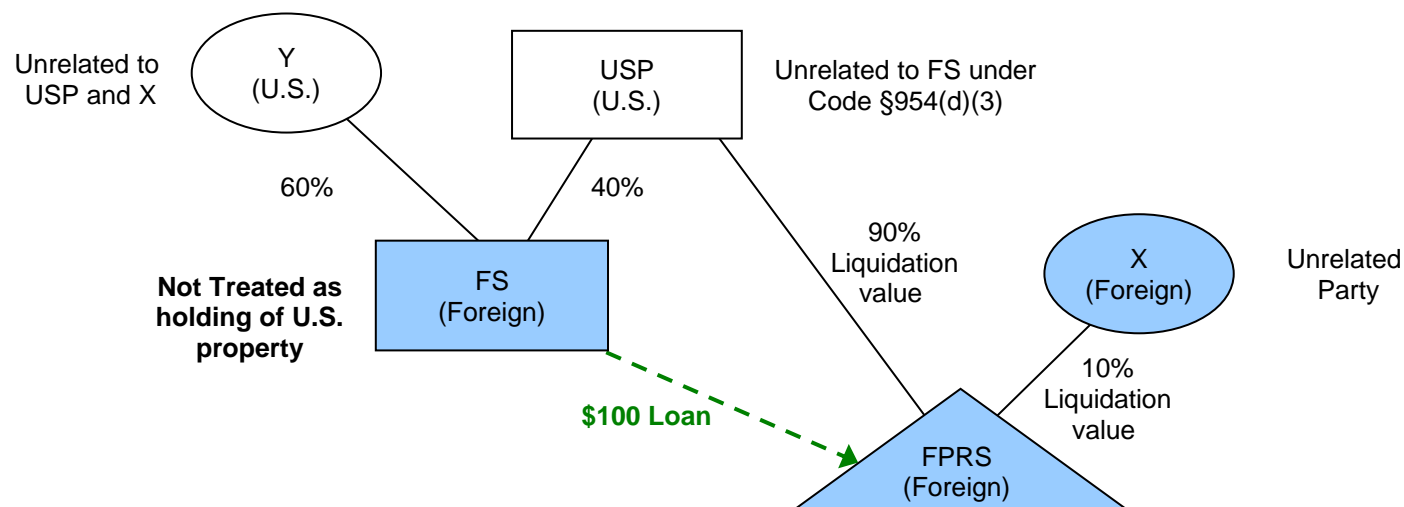


Reg. 1.956-4(c)(4), Ex. 2

CFC Loan to Foreign Partnership With No Related U.S. Partners

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USP, a domestic corporation, owns 40% of FS, a controlled foreign corporation, and is not a related person (as defined in Code §954(d)(3)) with respect to FS. Y, a United States person that is unrelated to USP or X, owns the remaining 60% of the stock of FS. USP owns an interest in FPRS, a foreign partnership. At the close of quarter 1 of year 1, the liquidation value percentage, as determined under Treas. Reg. §1.956-4(b)(2)(i), for USP with respect to FPRS is 90%. X, a foreign person that is unrelated to USP or FS, owns the remaining interest in FPRS. FPRS borrows \$100x from FS. FS's basis in the FPRS obligation is \$100x.

Because neither FS nor any person related to FS within the meaning of Code §954(d)(3) is a partner in FPRS, the exception in Treas. Reg. §1.956-4(c)(2) applies to treat the FPRS obligation as an obligation of a foreign partnership and not an obligation of a United States person. Therefore, Treas. Reg. §1.956-4(c)(1) does not apply, and FS is not treated as holding United States property.

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