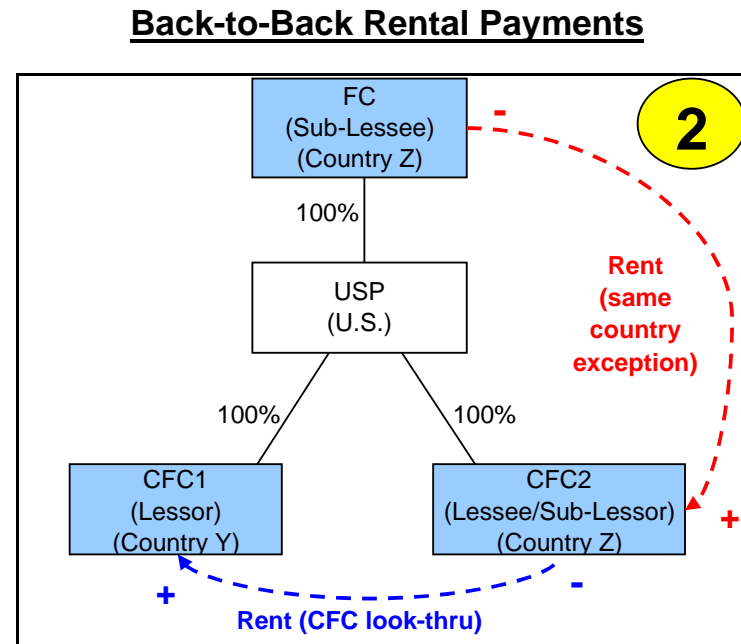
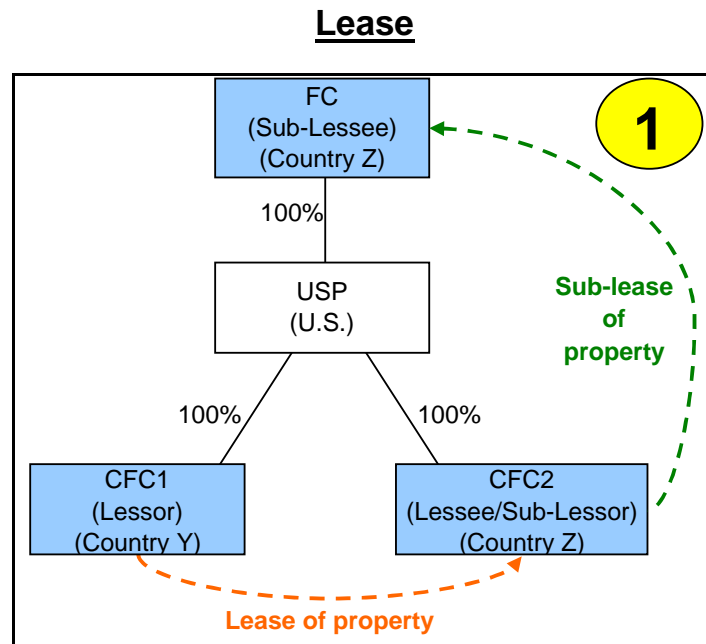


Notice 2007-9, Example 3

Exception to CFC Look-Through Rule

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USP, a domestic corporation, owns 100% of the stock of CFC1, a country Y corporation, and CFC2, a country Z corporation. FC, a country Z corporation, is not a CFC, but is a related person under section 954(d)(3). In year 1, FC leases property from CFC1 for \$100. USP causes the rental payment to be made through CFC2. Thus, CFC2 receives a payment from FC that is excluded from FPHCI under section 954(c)(3)(A)(i) (same country exception). CFC2 then makes a payment to CFC1, in satisfaction of the rent owed by FC, which is intended to qualify for the section 954(c)(6) exception. A principal purpose for the involvement of CFC2 in the transaction is to qualify the rental payment from FC to CFC1 as eligible for the section 954(c)(6) exception.

If the rental payment had been made directly from FC to CFC1, it would have been included as FPHCI under section 954(c)(1)(A). By causing the payment to be made through CFC2, USP sought to convert the character of the income from FPHCI to income excluded from FPHCI. However, because a principal purpose of including CFC2 in the transaction as a conduit entity was to avoid inclusion of the rental payment from FC to CFC1 as FPHCI, the payment from CFC2 to CFC1 will be treated as being made from FC to CFC1. Therefore, the payment is not eligible for the section 954(c)(6) exception. [HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)