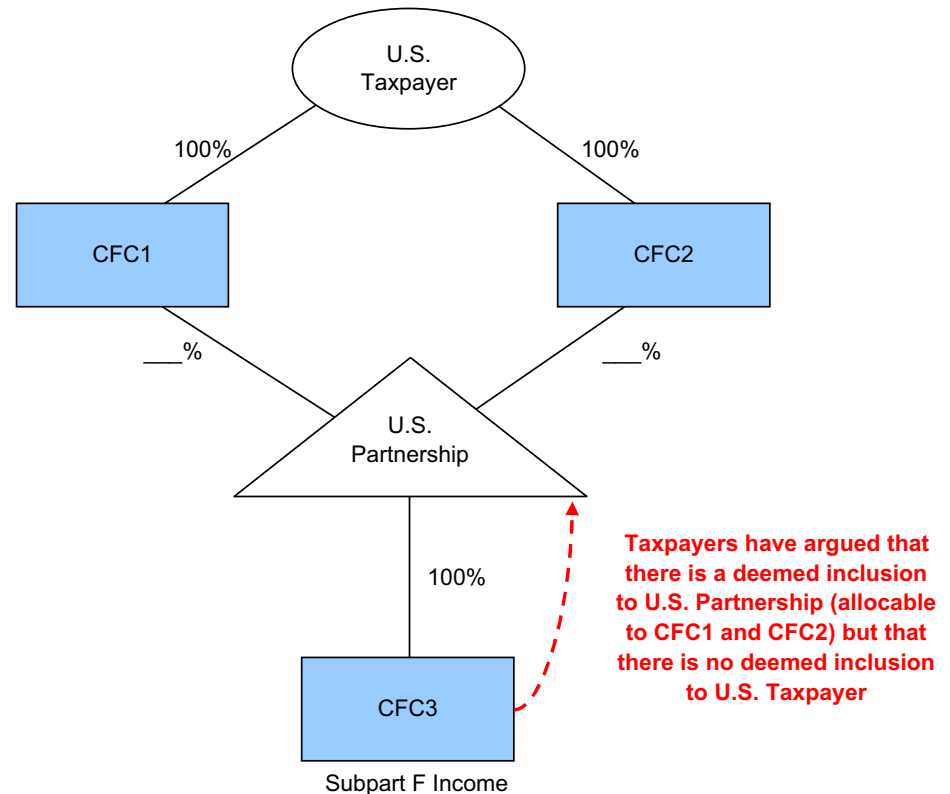


The Internal Revenue Service (IRS) and the Treasury Department announced that they are aware of a type of transaction, in which a U.S. taxpayer that owns controlled foreign corporations (CFCs) that hold stock of a lower-tier CFC through a domestic partnership takes the position that subpart F income of the lower-tier CFC or an amount determined under section 956(a) related to holdings of United States property by the lower-tier CFC does not result in income inclusions under section 951(a) for the U.S. taxpayer. The IRS and Treasury Department believe this transaction (which includes taking the position that the U.S. taxpayer has no income inclusion under section 951(a)) has the potential for tax avoidance or evasion, but lack enough information to determine whether the transaction should be identified specifically as a tax avoidance transaction. This notice identifies this transaction and substantially similar transactions as "transactions of interest" for purposes of Reg. 1.6011-4(b)(6).



A U.S. taxpayer (Taxpayer) wholly owns two CFCs, (CFC1 and CFC2). CFC1 and CFC2 are partners in a domestic partnership (US Partnership). US Partnership owns 100 percent of the stock of another CFC (CFC3). Some or all of the income of CFC3 is subpart F income. As part of the transaction, Taxpayer takes the position that the subpart F income of CFC3 is currently included in the income of U.S. Partnership (which is not subject to U.S. tax) and is not included in the income of Taxpayer. The result of the claimed tax treatment is that income that would otherwise be taxable currently to Taxpayer under subpart F is not taxable to Taxpayer because of the interposition of a domestic partnership in the CFC structure. Without the interposition of U.S. Partnership, the section 951(a) inclusion resulting from the subpart F income of CFC3 would be taxable currently to Taxpayer. In some variations of the transaction, there may be more than one person that owns the stock of CFC1 and/or CFC2, U.S. Partnership may own less than all of the stock of CFC3, a domestic trust may be used instead of a domestic partnership, or the section 951(a) inclusion amount may result from an amount determined under section 956.