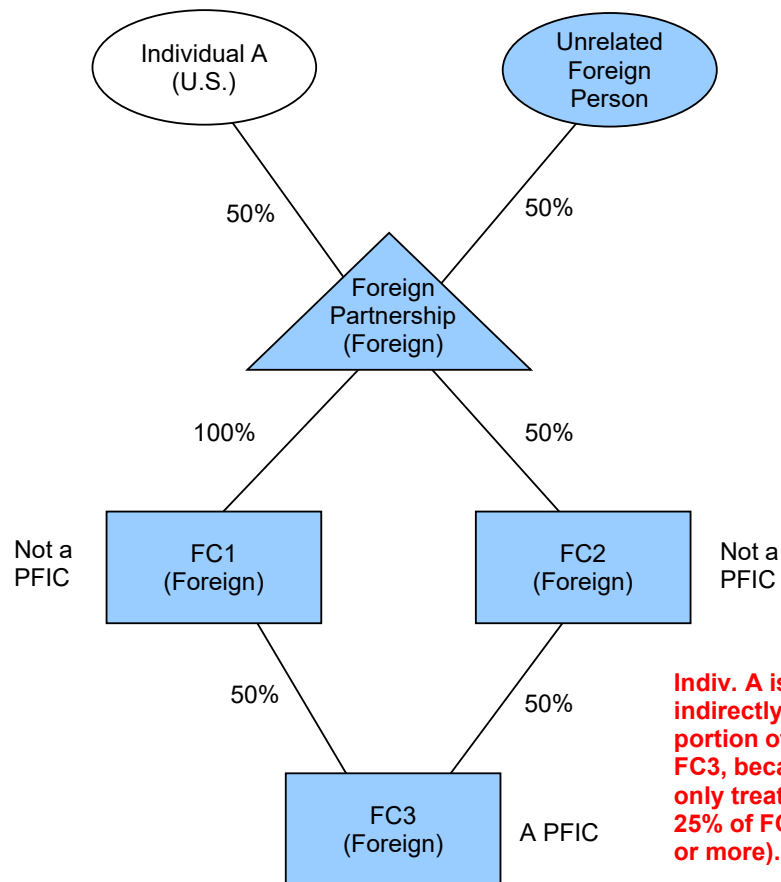


**Prop. Reg. 1.1291-1
(b)(8)(iv)(B), Example 2**

**"Top-Down" Approach For
Ownership of a PFIC Thru
Foreign Partnerships**

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A, a United States citizen, owns 50% of the interests in Foreign Partnership, a foreign partnership, the remaining interests in which are owned by an unrelated foreign person. Foreign Partnership owns 100% of the stock of FC1 and 50% of the stock of FC2, the remainder of which is owned by an unrelated foreign person. Both FC1 and FC2 are foreign corporations that are not PFICs (determined without applying sections 1297(d) and 1298(b)(7)). FC1 and FC2 each own 50% of the stock of FC3, a foreign corporation that is a PFIC.



Indiv. A is not treated as indirectly owning any portion of FC2's interest in FC3, because Indiv. A is only treated as owning 25% of FC2 (i.e., not 50% or more).

Under Reg. 1.1291-1(b)(8)(iii)(A), for purposes of determining whether A is a shareholder of FC3, A is considered to own 50% (50% x 100%), or 50% or more, of FC1, because A owns 50% or more of Foreign Partnership, but 25% (50% x 50%) of FC2. Thus, under Reg. 1.1291-1(b)(8), A is considered to own 25% of the stock of FC3 (50% x 100% x 50%) indirectly through FC1, and thus is a shareholder of FC3 for purposes of the PFIC provisions, but is not considered to own any stock of FC3 indirectly through FC2.

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