

**Prop. Reg. 1.1297-2(b)(3)(i),  
Example 1**

**25% Look-Through Rule  
Depends on Entity Being Tested**

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USP is a domestic corporation. TFC, LTS, and FS are foreign corporations that are not controlled foreign corporations within the meaning of section 957(a).

USP owns 30% of TFC. TFC directly owns 80% of the only class of LTS stock for TFC's and LTS's entire taxable year. LTS owns 25% of the only class of FS stock.

Pursuant to the principles of section 958(a), TFC owns 80% of the value of LTS, LTS owns 25% of the value of FS, and TFC owns 20% of the value of FS.

Under Reg. 1.1297-2(b), in determining whether LTS is a PFIC under section 1297(a), LTS is treated as if it held 25% of each of FS's assets on each of the measuring dates in its taxable year, and received directly 25% of the gross income of FS for the taxable year.

In determining whether TFC is a PFIC under section 1297(a), TFC is treated as if it held an 80% interest in each of LTS's assets on each of the measuring dates in its taxable year, and received directly 80% of the income of LTS for the taxable year.

However, TFC is treated as if it held a 20% interest in the stock of FS (and not the assets of FS), and received 80% of any dividends paid from FS to LTS (and not any income of FS).

