

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

**Disposition of a Look-Through
Subsidiary In The Fourth Quarter**

Copyright © 2020 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

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 25% of the only class of LTS stock on the last day of each of the first three quarters of its taxable year, but disposes of its entire interest in LTS during the fourth quarter of its taxable year. LTS owns 25% of the only class of FS stock. Pursuant to the principles of section 958(a), on each of its first three measuring dates, TFC owns 25% of the value of LTS and 6.25% of the value of FS.

Under Reg. 1.1297-2(b), in determining whether TFC is a PFIC under section 1297(a), TFC is treated as if it held 25% of LTS's assets on each of the first three measuring dates in its taxable year. However, because it held an average of 18.75% of the value of LTS on the measuring dates in the taxable year, it is not treated as receiving directly the gross income of LTS for the taxable year. If information about the gross income for LTS for each of the first three quarters of its taxable year is available, TFC may be treated as receiving directly 25% of the income of LTS for each of those quarters, because it owned 25% of the value of LTS on the measuring dates with respect to those measuring periods. For each of its first three quarters, TFC is treated as if it held a 6.25% interest in the stock of FS (and not the assets of FS) and may, if information about the income for LTS for each of the first three quarters of its taxable year is available, be treated as receiving 25% of any dividends paid from FS to LTS (and not any income of FS).

