The facts are the same as in Example 2, except the $100 dividend income received by A in year 1 is from A's wholly-owned subsidiary, S. The analysis is the same as in Example 1 with respect to the $100 dividend payment from S to A. However, the $25 interest payment in year 2 by A to FC will be treated as a dividend to the extent the payment does not exceed FC's share of the $100 dividend payment made by S to A ($85). FC is entitled to the reduced rate applicable to dividends under the U.S.-Country X income tax treaty with respect to the $25 payment. A is not entitled to an interest deduction.