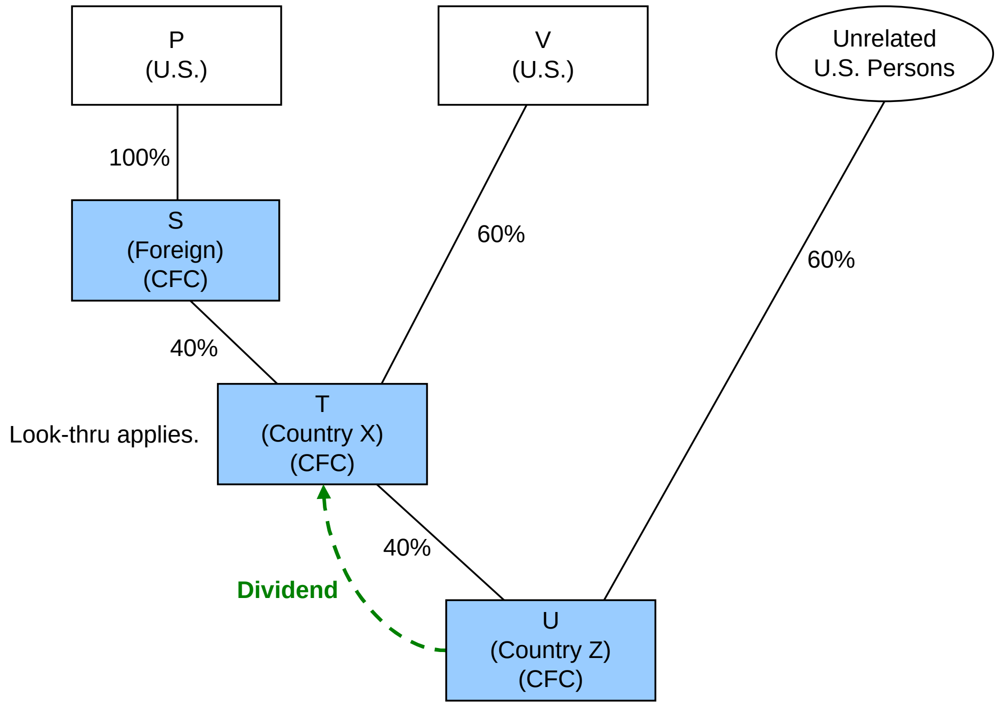
Reg. 1.904-5(i)(5), Example 2

Look-Thru For Dividend (40% Ownership Between CFCs)



P, a domestic corporation, owns all of the stock of S, a CFC. S owns 40% of the stock of T, a Country X corporation that is a CFC. The remaining 60% of the stock of T is owned by V, a domestic corporation. The percentages of value and voting power of T owned by S and V correspond to their percentages of stock ownership. T owns 40% (by vote and value) of the stock of U, a Country Z corporation that is a CFC. The remaining 60% of U is owned by unrelated U.S. persons. U pays a $50 dividend to T in 2001. P and V each own, directly or indirectly, more than 10% of the voting powe of all classes of stock of both T and U. For purposes of the dividend from U to T, U and T are treated as related look-thru entities. Therefore, look-thru principles apply to characterize the dividend income as general limitation income to T. The dividend is subpart F income of T that is taxable to P and V. The subpart F inclusions of P and V are also subject to look-thru principles and are characterized as general limitation income to P and V because the income is general limitation income of T.