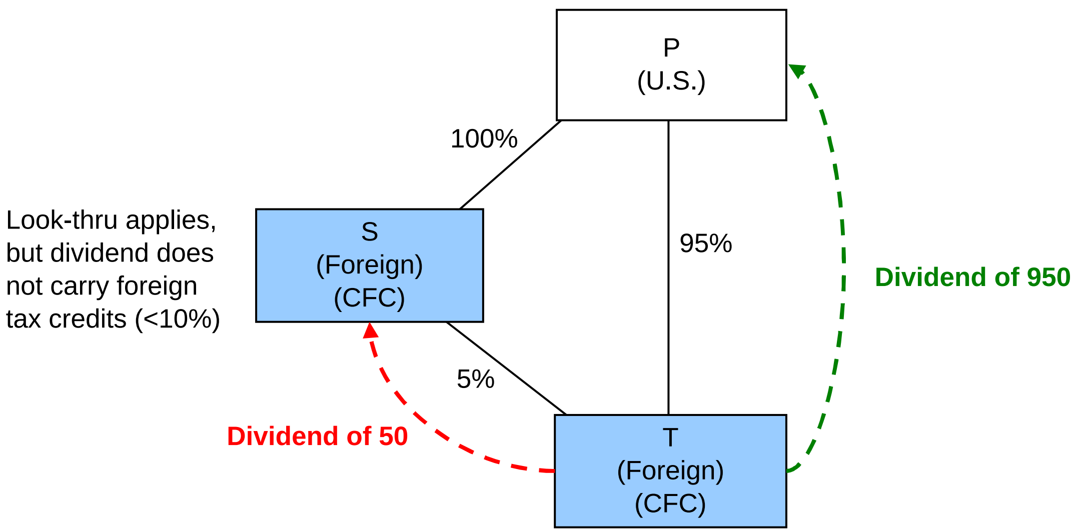
Temp. Reg. 1.904-5T(i)(5), Example 4

Look-Thru But No Section 902 Credits



P, a domestic corporation, owns all of the voting stock of S, a CFC. S owns 5% of the voting stock of T, a CFC. The remaining 95% of the stock of T is owned by P. In 2006, T pays a $50 dividend to S and a $950 dividend to P. The dividend to S is not eligible for look-thru treatment under the normal look-thru rules, and S is not eligible to compute an amount of foreign taxes deemed paid with respect to the dividend from T, because S and T are not members of the same qualified group (S owns less than 10% of the voting stock of T). See section 902(b) and §1.902-1(a)(3). However, the dividend is eligible for look-thru treatment under a special rule because P owns at least 10% of the voting power of all classes of stock of both S and T. The dividend is subpart F income of S that is taxable to P.