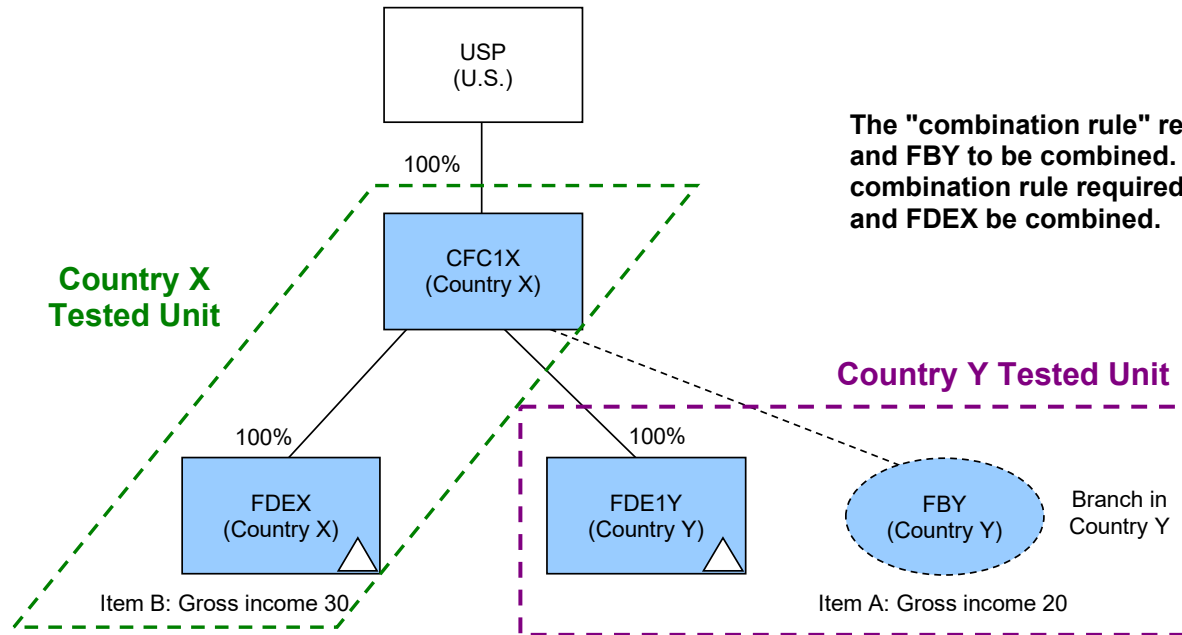


**Reg. 1.951A-2(c)(8)(iii)(D),
Example 4**

**A CFC With Two DREs and One
Foreign Branch Has Two Tested Units**

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The "combination rule" required FDEY and FBY to be combined. In addition, the combination rule required that CFC1X and FDEX be combined.

USP owns all of the stock of CFC1X. CFC1X directly owns all the interests of FDEX and FDE1Y. In addition, CFC1X directly carries on activities in Country Y that constitute a branch (as described in Reg. 1.267A-5(a)(2)) and that give rise to a taxable presence under Country Y tax law and Country X tax law (such branch, "FBY").

Items reflected on books and records. For the CFC inclusion year, CFC1X had a €20x item of gross income (Item A), which is properly reflected on the books and records of FBY, and a €30x item of gross income (Item B), which is properly reflected on the books and records of FDEX.

Identifying the tested units of CFC1X. Without regard to the combination rule of Reg. 1.951A-2(c)(7)(iv)(C), CFC1X, CFC1X's interest in FDEX, CFC1X's interest in FDE1Y, and FBY would each be a tested unit of CFC1X. See Reg. 1.951A-2(c)(7)(iv)(A). Pursuant to the combination rule, however, the FDE1Y tested unit is combined with the FBY tested unit and treated as a single tested unit because FDE1Y is a tax resident of Country Y, the same country in which FBY is located (the "Country Y tested unit"). See Reg. 1.951A-2(c)(7)(iv)(C)(1). The CFC1X tested unit (without regard to any items attributable to the FDEX, FDE1Y, or FBY tested units) is also combined with the FDEX tested unit and treated as a single tested unit because CFC1X and FDEX are both tax residents of County X (the "Country X tested unit"). See Reg. 1.951A-2(c)(7)(iv)(C)(1).

Computing the items of CFC1X. Under Reg. 1.951A-2(c)(7)(ii)(A), a tentative gross tested income item is determined with respect to each of the Country Y tested unit and the Country X tested unit. To determine the tentative gross tested income item of each tested unit, the item of gross income that is attributable to the tested unit is determined under Reg. 1.951A-2(c)(7)(ii)(B). Under Reg. 1.951A-2(c)(7)(ii)(B), only Item A is attributable to the Country Y tested unit. Item A is not attributable to the Country X tested unit because it is not reflected on the separate set of books and records of the CFC1X tested unit or the FDEX tested unit, and an item of gross income is only attributable to one tested unit. See Reg. 1.951A-2(c)(7)(ii)(B)(1). Under Reg. 1.951A-2(c)(7)(ii)(B), only Item B is attributable to the Country X tested unit.