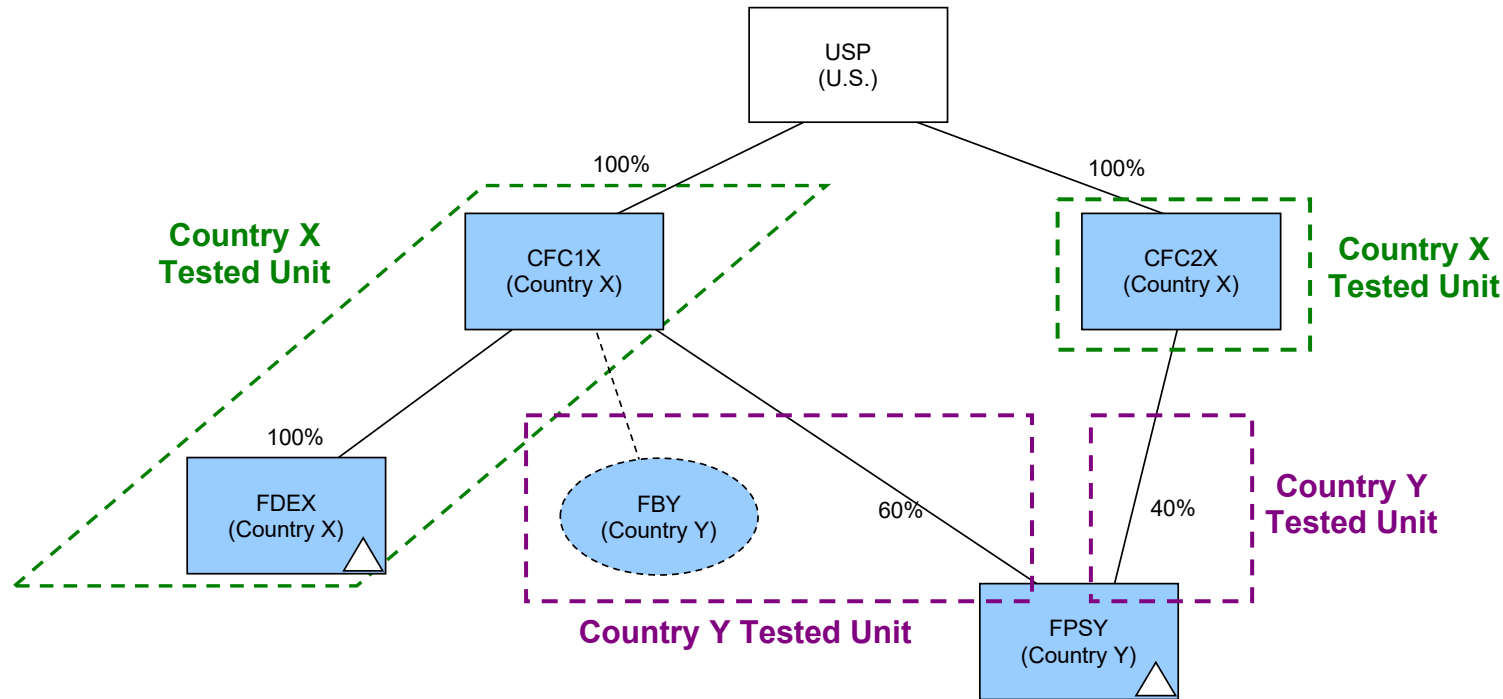


**Reg. 1.951A-2(c)(8)(iii)(D),  
Example 4, Alternative  
Facts 3**

**Tested Units With CFCs As  
Partners In A Partnership**

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USP owns all of the stock of CFC1X and CFC2X. CFC1X directly owns all the interests of FDEX. In addition, CFC1X directly carries on activities in Country Y that constitute a branch (as described in § 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”). CFC1X and CFC2X own 60% and 40%, respectively, of the interests of FPSY.

Analysis for CFC1X. Under Reg. 1.951A-2(c)(7)(iv)(C)(1), FBY and CFC1X's 60% interest in FPSY are combined and treated as a single tested unit of CFC1X (“CFC1X's Country Y tested unit”), and CFC1X's interest in FDEX and CFC1X's other activities are combined and treated as a single tested unit of CFC1X (“CFC1X's Country X tested unit”). CFC1X's Country Y tested unit is attributed any item of CFC1X that is derived through its interest in FPSY to the extent the item is properly reflected on the books and records of FPSY. See Reg. 1.951A-2(c)(7)(ii)(B)(1).

Analysis for CFC2X. Under Reg. 1.951A-2(c)(7)(iv)(A)(1) and (c)(7)(iv)(A)(2)(i), CFC2X and CFC2X's 40% interest in FPSY are tested units of CFC2X. CFC2X's interest in FPSY is attributed any item of CFC2X that is derived through FPSY to the extent that it is properly reflected on the books and records of FPSY. See Reg. 1.951A-2(c)(7)(ii)(B)(1).

Analysis for not combining CFC1X and CFC2X tested units. None of the tested units of CFC1X are combined with the tested units of CFC2X under Reg. 1.951A-2(c)(7)(iv)(C)(1) because they are tested units of different controlled foreign corporations, and the combination rule only combines tested units of the same controlled foreign corporation.