USP, a domestic corporation owns 100 percent of the stock of USS, a domestic corporation and 100 percent of the stock of CFC, a controlled foreign corporation. USP's basis in its USS stock equals the fair market value of the USS stock, or $100x. USP transfers its USS stock to CFC in exchange for $100x of CFC stock. USP's transfer of its USS stock to CFC is described in section 351, USP recognizes no gain in the exchange under section 351(a), and CFC's basis in the USS stock acquired in the exchange, determined under section 362(a), equals $100x.

The USS stock acquired by CFC in the exchange does not constitute United States property under Temp. Reg. 1.956-1T(e)(6)(ii) because CFC acquires the USS stock from USP (and not from USS - the issuing corporation). Therefore, CFC's basis in the US2 stock, for purposes of section 956, is not determined under Temp. Reg. 1.956-1T(e)(6). Instead, CFC's basis in the USS stock is determined under the general rule of section 956(a) and under Temp. Reg. 1.956-1(e)(1)-(4). As determined under section 362(a), CFC's basis in the USS stock is $100x.