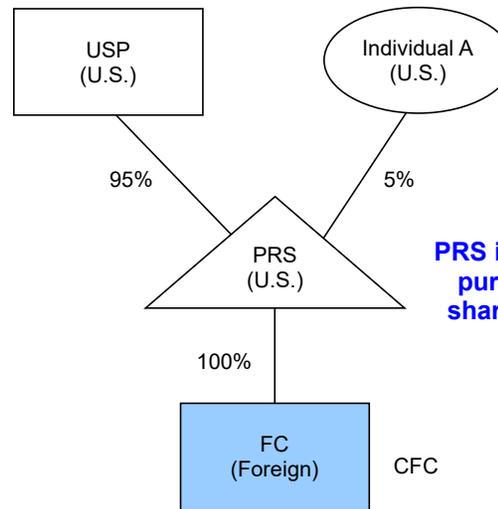


**Reg. 1.958-1(d)(3)(i),
Example 1**

**U.S. Partnership Owns CFC,
With One Partner as a U.S. Shareholder**

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Not a U.S. shareholder of the CFC (no subpart F income or GILTI inclusions, but FC may be a PFIC with respect to Individ. A)

PRS is treated as an entity for purposes of CFC and U.S. shareholder determinations

(A) Facts.

USP, a domestic corporation, and Individual A, a United States citizen unrelated to USP, own 95% and 5%, respectively, of PRS, a domestic partnership. PRS owns 100% of the single class of stock of FC, a foreign corporation.

(B) Analysis—(1) United States shareholder and CFC determinations. Under Reg. 1.958-1(d)(2)(i) and (ii), the determination of whether PRS, USP, and Individual A (each a United States person) are United States shareholders of FC and whether FC is a controlled foreign corporation is made without regard to Reg. 1.958-1(d)(1). PRS, a United States person, owns 100% of the total combined voting power or value of the FC stock within the meaning of section 958(a). Accordingly, PRS is a United States shareholder under section 951(b), and FC is a controlled foreign corporation under section 957(a). USP is also a United States shareholder of FC because it owns 95% of the total combined voting power or value of the FC stock under sections 958(b) and 318(a)(2)(A). Individual A, however, is not a United States shareholder of FC because Individual A owns only 5% of the total combined voting power or value of the FC stock under sections 958(b) and 318(a)(2)(A).

(2) Application of sections 951 and 951A. Under Reg. 1.958(d)(1), for purposes of sections 951 and 951A, PRS is not treated as owning (within the meaning of section 958(a)) the FC stock; instead, for purposes of determining the persons that own the FC stock within the meaning of section 958(a), the FC stock is treated as if it were owned by a foreign partnership under Reg. 1.958(b). Therefore, for purposes of sections 951 and 951A, USP is treated as owning 95% of the FC stock under section 958(a), and Individual A is treated as owning 5% of the FC stock under section 958(a). USP is a United States shareholder of FC, and therefore USP determines its income inclusions under sections 951 and 951A directly with respect to FC based on its ownership of FC stock under section 958(a). However, because Individual A is not a United States shareholder of FC, Individual A does not have an income inclusion under section 951 with respect to FC or a pro rata share of any amount of FC for purposes of section 951A. This is the case even though PRS is a United States shareholder of FC.

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