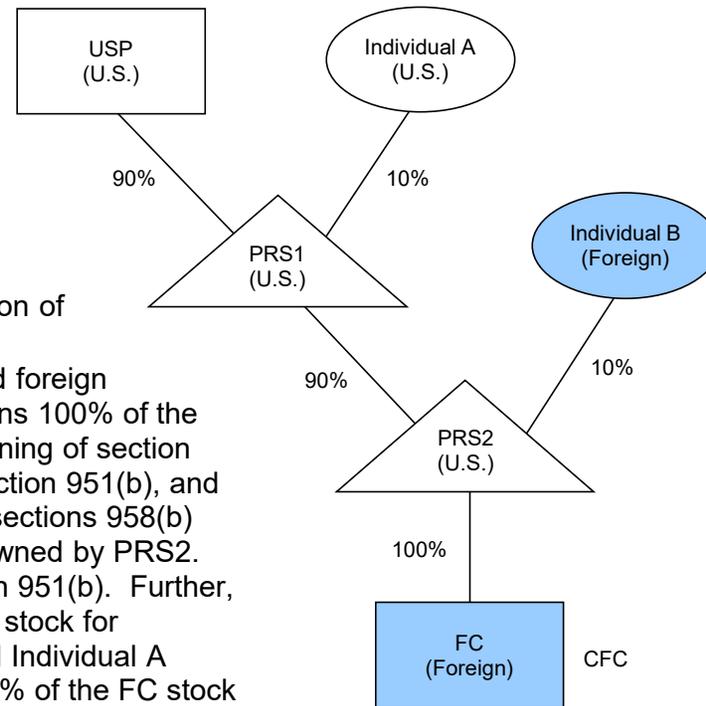


**Reg. 1.958-1(d)(3)(ii),
Example 2**

Tiered U.S. Partnerships Own a CFC

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(A) Facts. USP, a domestic corporation, and Individual A, a United States citizen, own 90% and 10%, respectively, of PRS1, a domestic partnership. PRS1 and Individual B, a nonresident alien individual, own 90% and 10%, respectively, of PRS2, a domestic partnership. PRS2 owns 100% of the single class of stock of FC, a foreign corporation. USP, Individual A, and Individual B are unrelated to each other.



(B) Analysis—(1) United States shareholder and CFC determinations. Under Reg. 1.958-1(d)(2)(i) and (ii), the determination of whether PRS1, PRS2, 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). PRS2 owns 100% of the total combined voting power or value of the FC stock within the meaning of section 958(a). Accordingly, PRS2 is a United States shareholder under section 951(b), and FC is a controlled foreign corporation under section 957(a). Under sections 958(b) and 318(a)(2)(A), PRS1 is treated as owning 90% of the FC stock owned by PRS2. Accordingly, PRS1 is also a United States shareholder under section 951(b). Further, under section 958(b)(2), PRS1 is treated as owning 100% of the FC stock for purposes of determining the FC stock treated as owned by USP and Individual A under section 318(a)(2)(A). Therefore, USP is treated as owning 90% of the FC stock under section 958(b) (100% x 100% x 90%), and Individual A is treated as owning 10% of the FC stock under section 958(b) (100% x 100% x 10%). Accordingly, both USP and Individual A are also United States shareholders of FC under section 951(b).

(2) Application of sections 951 and 951A. Under Reg. 1.958-1(d)(1), for purposes of sections 951 and 951A, PRS1 and PRS2 are 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), as the FC stock is treated as if it were owned by foreign partnerships under paragraph (b) of this section. Therefore, for purposes of determining the amount included in gross income under sections 951 and 951A, under section 958(a) USP is treated as owning 81% (100% x 90% x 90%) of the FC stock, and Individual A is treated as owning 9% (100% x 90% x 10%) of the FC stock. Because USP and Individual A are both United States shareholders of FC, USP and Individual A determine their respective inclusions under sections 951 and 951A directly with respect to FC based on their ownership of FC stock under section 958(a). This is the case even though PRS2 is a United States shareholder of FC.