

Reg. 1.958-2(f), Example 1

9% Direct Owner Treated As U.S. Shareholder Thru Constructive Ownership

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United States persons A and B, and domestic corporation M, own 9% , 32%, and 10%, respectively, of the one class of stock in foreign corporation R. A also owns 10% of the one class of stock in M Corporation. For purposes of determining whether A is a United States shareholder with respect to R Corporation, 10% of the 10-percent interest of M Corporation in R Corporation is considered as owned by A. See Reg. 1.958-2(c)(1)(iii). Thus, A owns 10% (9% plus 10% of 10%) of the stock in R Corporation and is a United States shareholder with respect to such corporation. Corporation M and B, by reason of owning 10% and 32%, respectively, of the stock in R Corporation are United States shareholders with respect to such corporation.

For purposes of determining whether R Corporation is a controlled foreign corporation, the 1% of the stock in R Corporation directly owned by M Corporation and considered as owned by A cannot be counted twice. Therefore, the total amount of stock in R Corporation owned by United States shareholders is 51%, determined as follows:

Stock Ownership in R Corporation

Individual A	9%
Individual B	32%
Corp M	10%
Total	<hr/> 51%

