(i) Facts. USP, a domestic corporation, owns 80% of the stock of CFC, a controlled foreign corporation. The remaining portion of the stock of CFC is owned by an unrelated person. USP and CFC both use the calendar year as their U.S. taxable year, and CFC also uses the calendar year as its foreign taxable year. CFC uses the "u" as its functional currency. At all relevant times, 1u=$1x. For its U.S. taxable year ending December 31, 2018, after the application of the rules in Reg. 1.960-1(d) the income of CFC after foreign taxes is assigned to the following income groups: 1,000,000u of dividend income in a subpart F income group within the passive category ("subpart F income group 1"); 2,400,000u of gain from commodities transactions in a subpart F income group within the passive category ("subpart F income group 2"); and 1,800,000u of foreign base company services income in a subpart F income group within the general category ("subpart F income group 3").

CFC has current year taxes, translated into U.S. dollars, of $740,000x that are allocated and apportioned as follows: $50,000x to subpart F income group 1; $240,000x to subpart F income group 2; and $450,000x to subpart F income group 3. USP has a subpart F inclusion with respect to CFC of 4,160,000u = $4,160,000x, of which 800,000u is attributable to subpart F income group 1, 1,920,000u to subpart F income group 2, and 1,440,000u to subpart F income group 3.

(ii) Analysis—(A) Passive category. Under Reg. 1.960-2(b)(2) and (3), the amount of CFC's current year taxes that are properly attributable to items of income in subpart F income group 1 to which a subpart F inclusion is attributable equals USP's proportionate share of the current year taxes that are allocated and apportioned under Reg. 1.960-1(d)(3)(i) to subpart F income group 1, which is $40,000x ($50,000x × 800,000u/1,000,000u). Under Reg. 1.960-2(b)(2) and (3), the amount of CFC's current year taxes that are properly attributable to items of income in subpart F income group 2 to which a subpart F inclusion is attributable equals USP's proportionate share of the current year taxes that are allocated and apportioned under Reg. 1.960-1(d)(3)(ii) to subpart F income group 2, which is $192,000x ($240,000x × 1,920,000u/2,400,000u). Accordingly, under Reg. 1.960-2(b)(1), USP is deemed to have paid $232,000x ($40,000x + $192,000x) of passive category foreign income taxes of CFC with respect to its $2,720,000x subpart F inclusion in the passive category.

(B) General category. Under Reg. 1.960-2(b)(2) and (3), the amount of CFC's current year taxes that are properly attributable items of income in subpart F income group 3 to which a subpart F inclusion is attributable equals USP's proportionate share of the foreign income taxes that are allocated and apportioned under Reg. 1.960-1(d)(3)(ii) to subpart F income group 3, which is $360,000x ($450,000x × 1,440,000u/1,800,000u). CFC has no other subpart F income groups within the general category. Accordingly, under Reg. 1.960-2(b)(1), USP is deemed to have paid $360,000x of general category foreign income taxes of CFC with respect to its $1,440,000x subpart F inclusion in the general category.

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