(ii) **Facts.** USP, a domestic corporation, owns 100% of the stock of CFC1, which in turn owns 60% of the stock of CFC2, which in turn owns 100% of the stock of CFC3. USP, CFC1, CFC2, and CFC3 all use the calendar year as their U.S. taxable year. CFC1, CFC2, and CFC3 all use the “u” as their functional currency. At all relevant times, 1u = $1x. On July 1, 2020, CFC2 distributes 600u to CFC1 and the entire distribution is a section 959(b) distribution (“distribution 1”). On October 1, 2020, CFC1 distributes 800u to USP and the entire distribution is a section 959(a) distribution (“distribution 2”). CFC1 and CFC2 make no other distributions in the year ending December 31, 2020, earn no other income, and incur no taxes on distribution 1 or distribution 2. Before taking into account distribution 1, CFC2 has 1,000u of section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category. The previously taxed earnings and profits in CFC2’s PTEP group relate to subpart F income of CFC3 that was included by USP in 2016. CFC3 distributed the earnings and profits to CFC2 before the 2020 taxable year and, solely as a result of the distribution of the previously taxed earnings and profits, CFC2 incurred withholding and net basis tax, resulting in $150 of PTEP group taxes with respect to section 951(a)(1)(A) PTEP. Before taking into account distribution 1 and distribution 2, CFC1 has 200u in section 951A PTEP within an annual PTEP account for the 2018 taxable year within the section 951A category. The previously taxed earnings and profits in CFC1’s PTEP group relate to the portion of a GILTI inclusion amount that was included by USP in 2018 and allocated to CFC2 under section 951(f)(2) and Reg. 1.951A-6(b)(2). CFC2 distributed the earnings and profits to CFC1 before the 2020 taxable year and, solely as a result of the distribution of the previously taxed earnings and profits, CFC1 incurred withholding and net basis tax, resulting in $25x of PTEP group taxes with respect to section 951A PTEP. (ii) **Analysis.—** (A) **Foreign income taxes deemed paid by CFC1.** With respect to distribution 1 from CFC2 to CFC1, under Reg. 1.960-3(b)(4) CFC1’s proportionate share of PTEP group taxes with respect to CFC2’s section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category is $90x ($150x × 600u/1,000u). Under Reg. 1.960-3(b)(3), the amount of foreign income taxes that are properly attributable to distribution 2 is $90x. Accordingly, under Reg. 1.960-3(b)(2), CFC1 is deemed to have paid $90x of foreign category income taxes of CFC2 with respect to its 600u section 959(b) distribution in the general category. (B) **Adjustments to PTEP accounts of CFC1 and CFC2.** Under Reg. 1.960-3(c)(3), the 600u related to distribution 1 is added to CFC1’s section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category. Similarly, CFC2’s section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category is reduced by 600u. Under Reg. 1.960-3(d), CFC1’s PTEP group taxes with respect to its section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category are increased by $90 and CFC2’s PTEP group taxes with respect to section 951(a)(1)(A) PTEP within an annual PTEP account for the 2016 taxable year within the general category are reduced by $90x. (C) **Foreign income taxes deemed paid by USP.** With respect to distribution 2 from CFC1 to USP, because CFC1 has PTEP groups in more than one section 904 category, this section is applied separately to each section 904 category (that is, distribution 2 of 800u is applied separately to the 200u of CFC1’s section 951A PTEP and 600u of CFC1’s section 951(a)(1)(A) PTEP). (1) **Section 951A category.** Under Reg. 1.960-3(b)(4), USP’s proportionate share of PTEP group taxes with respect to CFC1’s section 951A PTEP within an annual PTEP account for the 2018 taxable year within the section 951A category is $25x ($25x × 200u/200u). Under Reg. 1.960-3(b)(3), the amount of foreign income taxes within the section 951A category that are properly attributable to distribution 2 is $25x. Accordingly, under Reg. 1.960-3(b)(1) USP is deemed to have paid $25x of section 951A category foreign income taxes of CFC1 with respect to its 200u section 959(a) distribution in the section 951A category. (2) **General category.** Under Reg. 1.960-3(b)(4), USP’s proportionate share of PTEP group taxes with respect to CFC1’s section 951(a)(1)(A) PTEP within an annual PTEP account for the 2018 taxable year within the general category is $90x ($90x × 600u/600u). Under Reg. 1.960-3(b)(3), the amount of foreign income taxes that are properly attributable to distribution 2 is $90x. Accordingly, under Reg. 1.960-3(b)(1), USP is deemed to have paid $90x of general category foreign income taxes of CFC1 with respect to its 600u section 959(a) distribution in the general category.