B, an individual, owns 100% of the stock of Corp A, and 4% of the interests in a partnership, PS. Corp A owns 100% of the stock of a domestic corporation, DC, and 1% of the interests in PS. A United States citizen, USI, owns 10% of the interests in PS and 10% by vote and value of the stock of a foreign corporation, FC. The remaining 90% by vote and value of the stock of FC is owned by non-United States persons that are unrelated to B, A, USI, DC, and PS.

Absent the application of the applicable attribution rules, FC would not be a specified foreign corporation, because FC is not a controlled foreign corporation and there would be no domestic corporation that is a United States shareholder of FC. However, applying the attribution rules (absent the special attribution rule in Prop. Reg. 1.965-1(f)(45)(ii)), PS would be treated as owning 100% of the stock of DC and 10% of the stock of FC. As a result, DC would be treated as owning the stock of FC treated as owned by PS, and thus DC would be a United States shareholder with respect to FC, causing FC to be a specified foreign corporation. The results would the same whether B, A, or PS are domestic or foreign persons.

Applying the principles of sections 958(b) and 318, as modified by Prop. Reg. 1.965-1(f)(45)(ii), as if the interest in PS were stock, A is treated as owning the interests in PS owned by B (in addition to the 1% interest in PS that A owns directly), and thus A is not treated as owning less than 5% of the interests in PS's capital and profits. Accordingly, the special attribution rule in Prop. Reg. 1.965-1(f)(45)(ii) does not apply, and PS is treated as owning A's stock of DC for purposes of determining whether FC is a specified foreign corporation within the meaning of section 965(e)(1)(B) and Prop. Reg. 1.965-1(f)(45)(i)(B). Accordingly, FC is a specified foreign corporation within the meaning of section 965(e)(1)(B) and paragraph Prop. Reg. 1.965-1(f)(45)(i)(B).