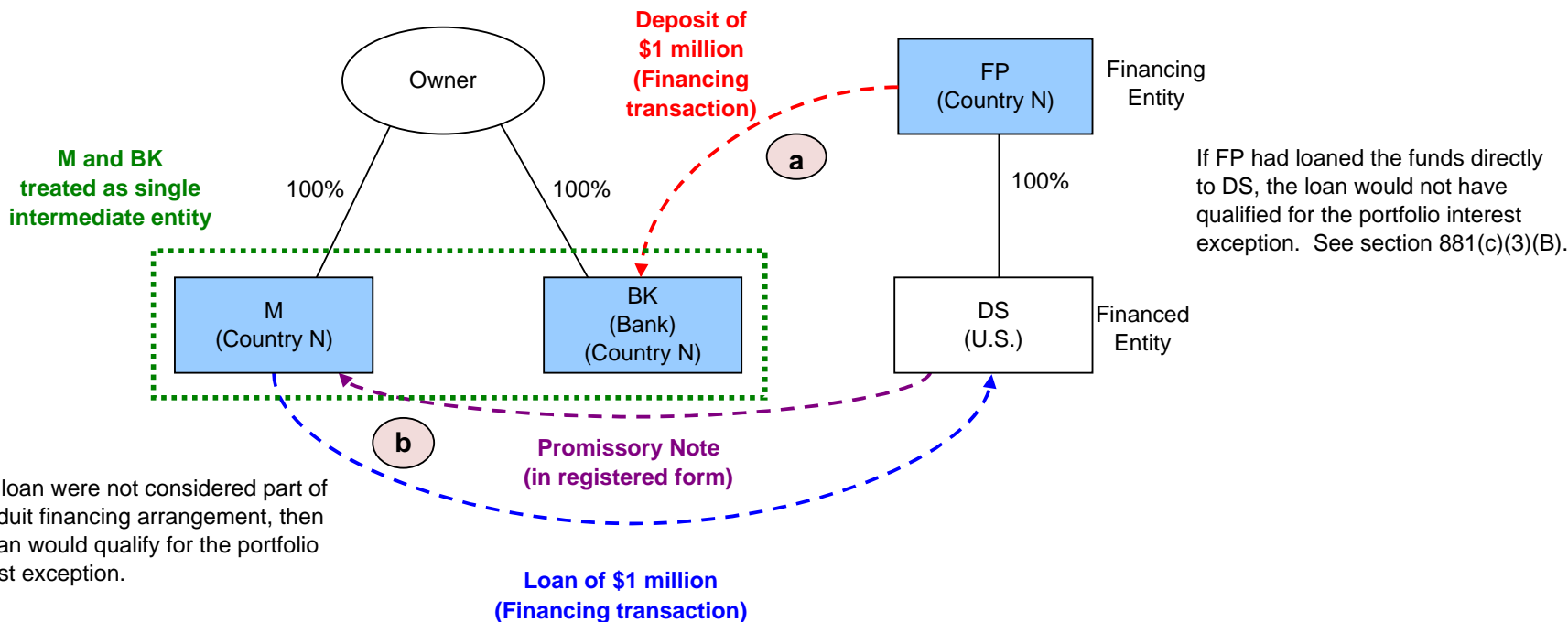


**Reg. 1.881-3(e), Example 5
(Conduit Financing Arrangements)**

**Related Persons Treated
As Single Intermediate Entity**

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FP, a corporation organized in country N, owns all of the stock of DS, a corporation organized in the United States. Country N does not have an income tax treaty with the United States. On January 1, 1996, FP deposits \$1,000,000 with BK, a bank that is organized in country N and is unrelated to FP and its subsidiaries. M, a corporation also organized in country N, is wholly-owned by the sole shareholder of BK but is not a bank within the meaning of section 881(c)(3)(A). On July 1, 1996, M lends \$1,000,000 to DS in exchange for a note maturing on July 1, 2006. The note is in registered form within the meaning of section 881(c)(2)(B)(i) and DS has received from M the statement required by section 881(c)(2)(B)(ii). One of the principal purposes for the absence of a financing transaction between BK and M is to avoid being treated as a conduit financing arrangement.

The transactions described above would form a financing arrangement but for the absence of a financing transaction between BK and M. However, because one of the principal purposes for the structuring of these financing transactions is to prevent characterization of such arrangement as a financing arrangement, the district director may treat the financing transactions between FP and BK, and between M and DS as a financing arrangement. In such a case, BK and M would be considered a single intermediate entity.

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