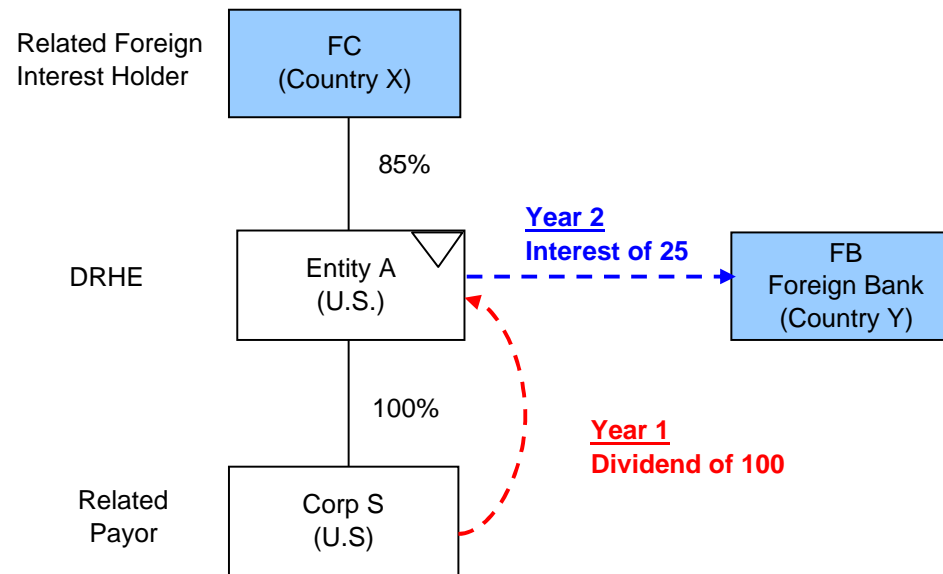


Reg. 1.894-1(d)(2)(iii), Example 7

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Interest Paid to Unrelated Foreign Bank



▽ Domestic reverse hybrid entity ("DRHE") - Not fiscally transparent (not "flow-thru") for U.S. tax purposes but fiscally transparent for foreign tax purposes.

The facts are the same as in Example 3, except that in year 2, A makes the interest payment of \$25 to FB, a Country Y unrelated foreign bank, on a loan from FB to A. The analysis is the same as in Example 1 with respect to the \$100 dividend payment from S to A. The interest payment from A to FB is not recharacterized because A is not related to FB. Thus, the \$25 interest payment made from A to FB is treated as interest.

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