Reg. 1.951-1(e)(6), Example 8

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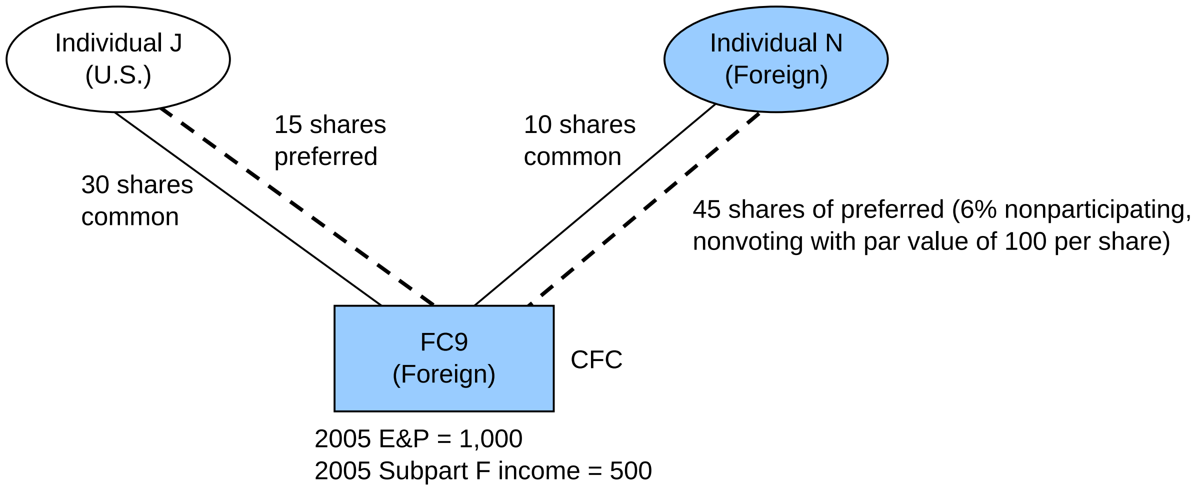
Pro Rata Share - Common and Preferred



FC9, a CFC, has outstanding 40 shares of common stock and 60 shares of 6-percent, nonparticipating, nonvoting, preferred stock with a par value of $100x per share. Individual J, a United States shareholder of FC9, owns 30 shares of the common stock, and 15 shares of the preferred stock during tax year 2005. The remaining 10 common shares and 45 preferred shares of FC9 are owned by Individual N, a foreign individual. Individual J and Individual N are shareholders of FC9 for all of 2005. For taxable year 2005, FC9 has $1,000x of earnings and profits, and subpart F income of $500x.

If the total $1,000x of earnings and profits were distributed on December 31, 2005, $360x (0.06 X $100x X 60) would be distributed with respect to FC9's preferred stock and $640x ($1,000x minus $360x) would be distributed with respect to its common stock. Accordingly, of the $500x with respect to which amounts are required to be included in gross income of United States shareholders under section 951(a), $180x ($360x/$1,000x X $500x) is allocated to the outstanding preferred stock and $320x ($640x/$1,000x X $500x) is allocated to the outstanding common stock. Therefore, Individual J's pro rata share of such amounts for 2005 is $285x [($180x X 15/60)+($320x X 30/40)].

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