(A) Determination of pro rata share of tested income. For purposes of determining P Corp’s pro rata share of FS’s tested income under Prop. Reg. 1.951A-1(d)(2), the amount of FS’s current earnings and profits for purposes of the hypothetical distribution described in §1.951-1(e)(1) is $120x, the greater of its earnings and profits as determined under section 964 ($100x) or the sum of its subpart F income and tested income ($0 + $120x). Under Prop. Reg. 1.951A-1(d)(2) and §1.951-1(e)(3), the amount of FS’s current earnings and profits distributed in the hypothetical distribution is $12x (.04 x $10x x 30) with respect to Individual A’s preferred shares and $108x ($120x - $12x) with respect to P Corp’s common shares. Accordingly, under Prop. Reg. 1.951A-1(d)(2) and §1.951-1(e)(1), Individual A’s pro rata share of FS’s tested income is $12x, and P Corp’s pro rata share of FS’s tested income is $108x for Year 4.

(B) Determination of pro rata share of qualified business asset investment. The special rule of Prop. Reg. 1.951A-1(d)(3)(ii) does not apply because FS’s qualified business asset investment of $750x does not exceed $1,200x, which is 10 times FS’s tested income of $120x. Accordingly, under the general rule of Prop. Reg. 1.951A-1(d)(3)(i), Individual A’s and P Corp’s pro rata share of FS’s qualified business asset investment bears the same ratio to FS’s total qualified business asset investment as Individual A’s and P Corp’s pro rata share, respectively, of FS’s tested income bears to FS’s total tested income. Thus, Individual A’s pro rata share of FS’s qualified business asset investment is $75x ($750x x $12x/$120x), and P Corp’s pro rata share of FS’s qualified business asset investment is $675x ($750x x $108x/$120x).