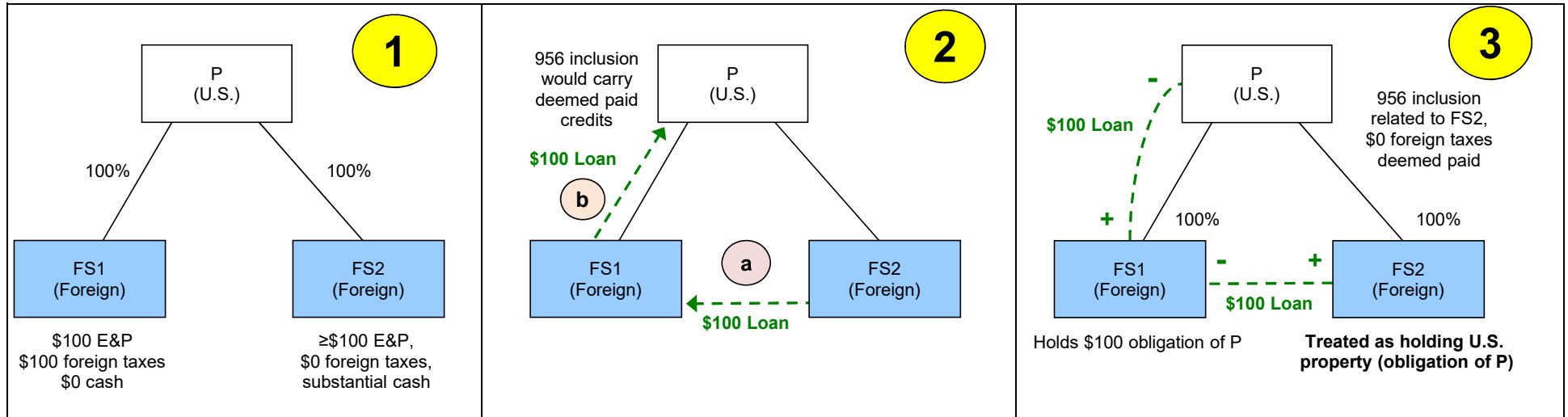


**U.S. Property Held Indirectly by a CFC -
Back to Back Loans**

Initial Structure

Back to Back Loans

Ending Point



P is a domestic corporation that wholly owns two controlled foreign corporations, FS1 and FS2.

FS1 has \$100x of post-1986 undistributed earnings and profits and \$100x post-1986 foreign income taxes, but does not have any cash. FS2 has earnings and profits of at least \$100x, no post-1986 foreign income taxes, and substantial cash. Neither FS1 nor FS2 has earnings and profits described in Code §959(c)(1) or Code §959(c)(2). FS2 loans \$100x to FS1. FS1 then loans \$100x to P. An income inclusion by P of \$100x under Code §§951(a)(1)(B) and 956 with respect to FS1 would result in foreign income taxes deemed paid by P under Code §960. A principal purpose of funding FS1 through the loan from FS2 is to avoid the application of Code §956 with respect to FS2.

Under Treas. Reg. §1.956-1(b)(1)(ii), FS2 is considered to indirectly hold the \$100x obligation of P that is held by FS1. As a result, P has an income inclusion of \$100x under Code §§951(a)(1)(B) and 956 with respect to FS2, and the foreign income taxes deemed paid by P under Code §960 is \$0. P does not have an income inclusion under Code §§951(a)(1)(B) and 956 with respect to FS1 related to the \$100x loan from FS1 to P.