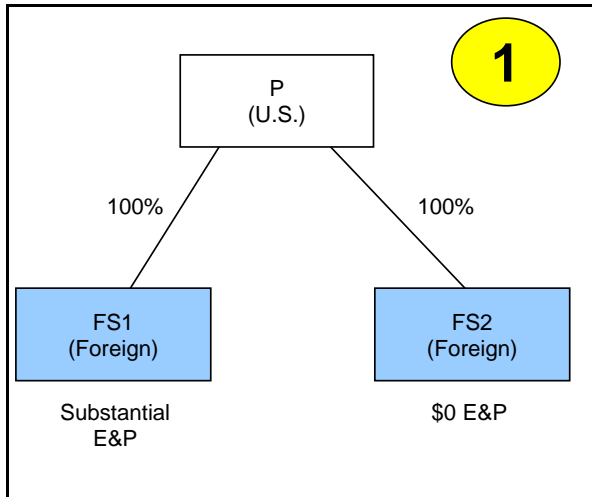
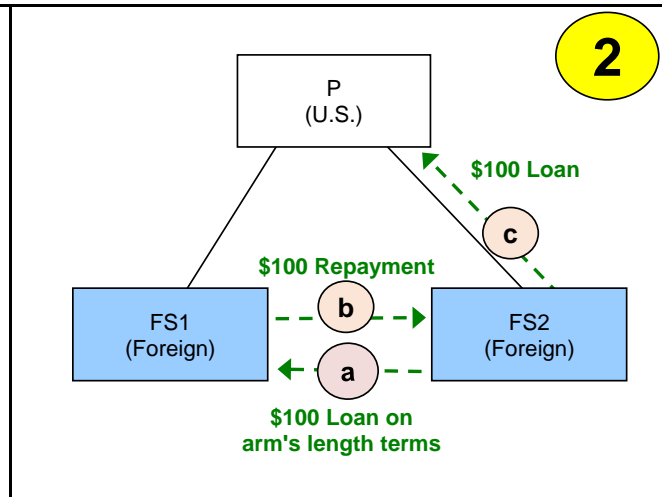


**U.S. Property Held Indirectly by a CFC -
Arm's Length Loan & Loan Repayment**

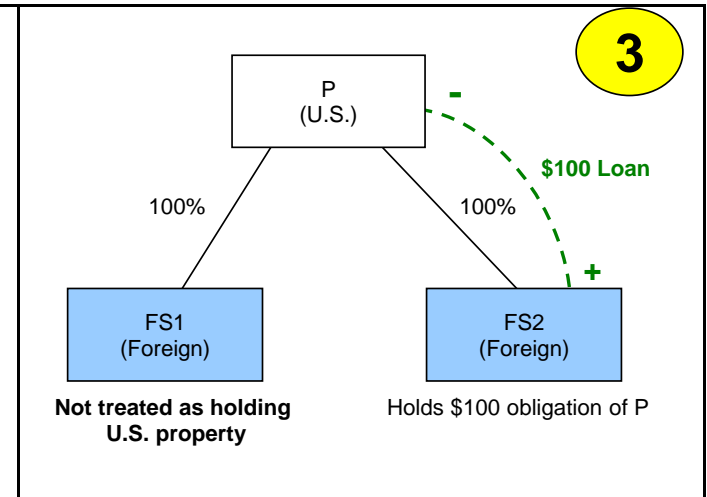
Initial Structure



Loan & Loan Repayment



Ending Point



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

In Year 1, FS2 loans \$100x to FS1 to finance FS1's trade or business. The terms of the loan are consistent with those that would be observed among parties dealing at arm's length. In Year 2, FS1 repays the loan in accordance with the terms of the loan. Immediately after the repayment by FS1, FS2 loans \$100x to P. FS2 has no earnings and profits, and FS1 has substantial accumulated earnings and profits.

FS1 will not be considered to indirectly hold United States property under Treas. Reg. §1.956-1(b) because a repayment of a loan that has terms that are consistent with those that would be observed among parties dealing at arm's length and that is repaid consistent with those terms does not constitute a funding.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)