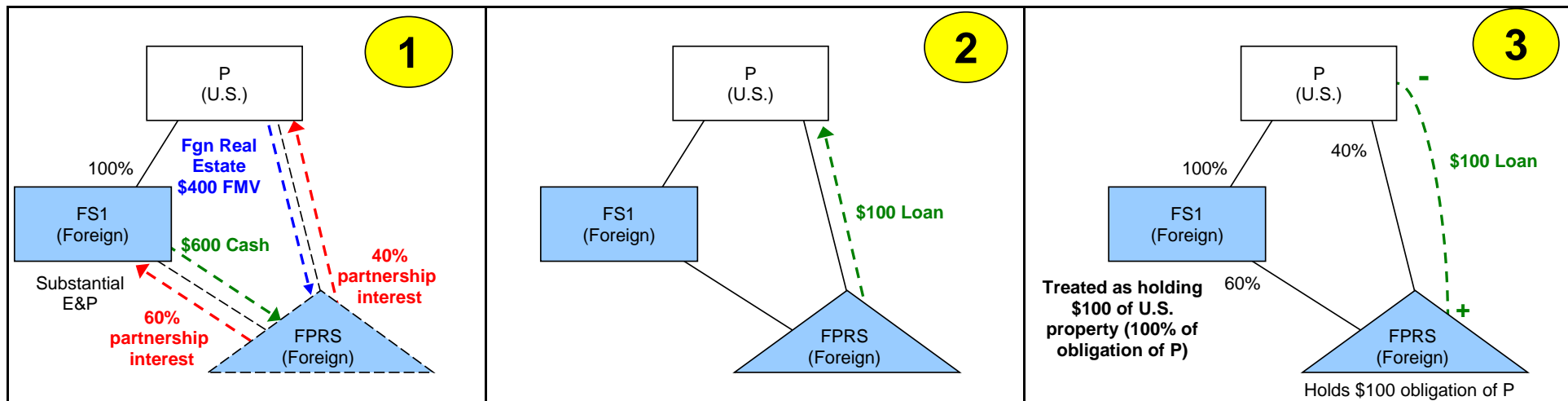


**U.S. Property Held Indirectly by a CFC - Loan Funded Thru Equity in Foreign Partnership**

Partnership Formation

Loan to P

Ending Point



P is a domestic corporation that wholly owns FS1, a controlled foreign corporation.

FS1 has substantial earnings and profits. P and FS1 are the only partners in FPRS, a foreign partnership. FS1 contributes \$600x cash to FPRS in exchange for a 60% interest in the partnership, and P contributes real estate located outside the United States (\$400x value) to FPRS in exchange for a 40% interest in the partnership. There are no special allocations in the FPRS partnership agreement. FPRS lends \$100x to P. Under Treas. Reg. §§1.956-4(b) and §1.956-2(a), FS1 is treated as holding United States property of \$60x (60% x \$100x) as a result of the FPRS loan to P. A principal purpose of creating, organizing, or funding FPRS is to avoid the application of Code §956 with respect to FS1.

Before taking into account Treas. Reg. §1.956-1(b)(3), because FS1 controls FPRS and a principal purpose of creating, organizing, or funding FPRS was to avoid the application of Code §956 with respect to FS1, FS1 is considered under paragraph Treas. Reg. §1.956-1(b)(1)(iii) to indirectly hold the \$100x obligation of P that would be United States property if held directly by FS1. However, under Treas. Reg. §1.956-1(b)(3), FS1 is treated as holding United States property under Treas. Reg. §1.956-1(b)(1)(iii) only to the extent the amount held indirectly under Treas. Reg. §1.956-1(b)(1)(iii) exceeds the sum of the amount of the United States property that FS1 is treated as holding as a result of the application of §1.956-4(b) with respect to FPRS. The amount of United States property that FS1 is treated as indirectly holding under Treas. Reg. §1.956-1(b)(1)(iii) and §1.956-2(a) (\$100x) exceeds the amount determined under Treas. Reg. §1.956-4(b) (\$60x) by \$40x. Thus, FS1 is considered to hold United States property within the meaning of Code §956(c) in the amount of \$100x (\$60x under Treas. Reg. §1.956-4(b) and \$40x under Treas. Reg. §§1.956-1(b)(1)(iii) and (b)(3)).