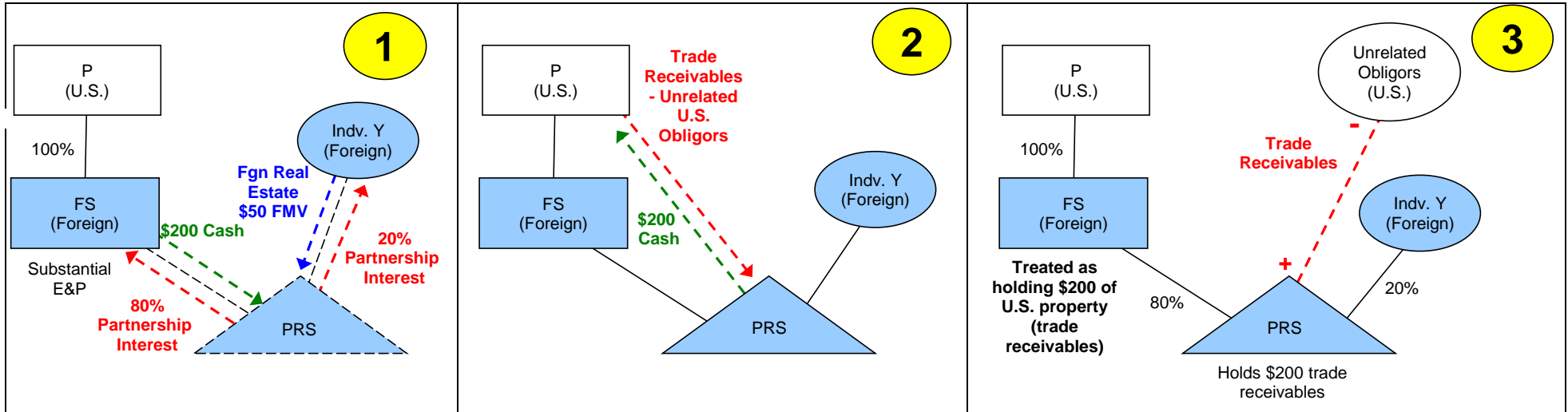


**U.S. Property - Receivables
Acquired by Partnership**

PRS Formation

Sale of Receivables

Ending Point



A domestic corporation, P, wholly owns a controlled foreign corporation, FS, with substantial earnings and profits. FS contributes \$200x of cash to a partnership, PRS, in exchange for an 80% partnership interest. An unrelated foreign person contributes real estate located in a foreign country with a fair market value of \$50x to PRS for the remaining 20% partnership interest. There are no special allocations in the PRS partnership agreement. PRS uses the \$200x of cash received from FS to purchase trade receivables from P. The obligors with respect to the trade receivables are United States persons that are not related to any partner in PRS. The liquidation value percentage, as determined under Treas. Reg. §1.956-4(b), for FS with respect to PRS is 80%. A principal purpose of funding PRS (through FS's cash contribution) is to avoid the application of Code §956 with respect to FS.

Under Treas. Reg. §1.956-4(b)(1), FS is treated as holding 80% of the trade receivables acquired by PRS from P, with a basis equal to \$160x (80% × \$200x, PRS's basis in the trade receivables). However, because FS controls PRS and a principal purpose of FS funding PRS was to avoid the application of Code §956 with respect to FS, under § 1.956-1(b), if the trade receivables would be United States property if held directly by FS, FS additionally would be treated as holding the trade receivables to the extent that they exceed the amount of the receivables it holds under Treas. Reg. §1.956-4(b), which is \$40x (\$200x - \$160x). Accordingly, under Treas. Reg. §1.956-3(b)(2)(ii), FS is treated as having acquired from P, a related United States person, the trade receivables that it is treated as holding with a basis equal to \$200x (\$160x + \$40x). Thus, FS is treated as holding United States property with a basis of \$200x under Treas. Reg. §1.956-3(a).