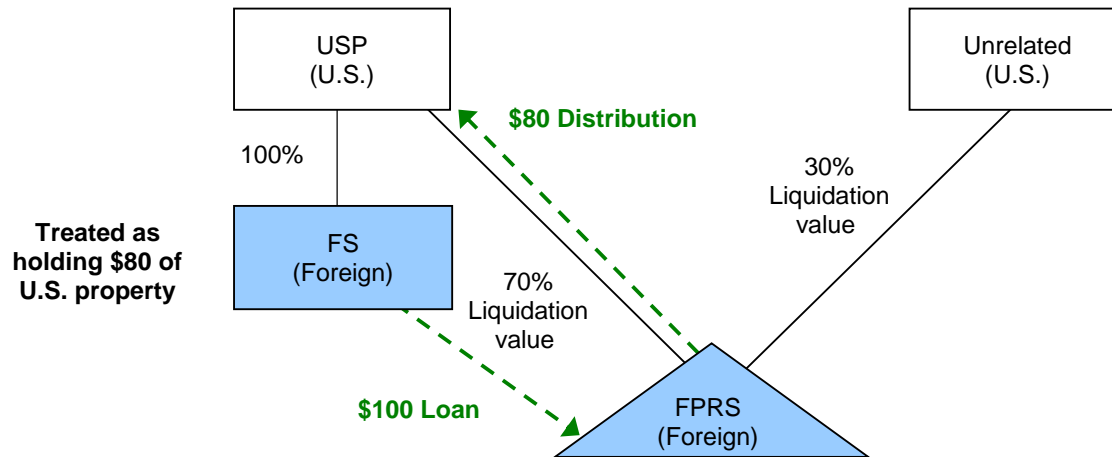


Reg. 1.956-4(c)(4), Ex. 4

CFC Loan to Foreign Partnership & Distribution to Related U.S. Partner

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USP, a domestic corporation, wholly owns FS, a controlled foreign corporation. USP owns an interest in FPRS, a foreign partnership; its liquidation value percentage with respect to FPRS is 70%. A domestic corporation that is unrelated to USP and FS owns the remaining interest in FPRS; its liquidation value percentage is 30%. FPRS borrows \$100x from FS and makes a distribution of \$80x to USP. FPRS would not have made the distribution to USP but for the funding of FPRS by FS.

Because USP, a partner in FPRS, is related to FS within the meaning of Code §954(d)(3), the exception in Treas. Reg. §1.956-4(c)(2) does not apply. Moreover, an obligation of USP held by FS would be United States property. USP's share of the FPRS obligation as determined under Treas. Reg. §1.956-4(c)(1) in accordance with USP's liquidation value percentage is \$70x. Under Treas. Reg. §1.956-4(c)(3), USP's share of the FPRS obligation is the greater of (i) USP's attributable share of the obligation, \$70x, or (ii) the lesser of the amount of the distribution, \$80x, or the amount of the obligation, \$100x. For purposes of Code §956, therefore, \$80x of the FPRS obligation is treated as an obligation of USP and is United States property within the meaning of Code §956(c). Thus, on the date the loan is made, FS is treated as holding United States property of \$80x.

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