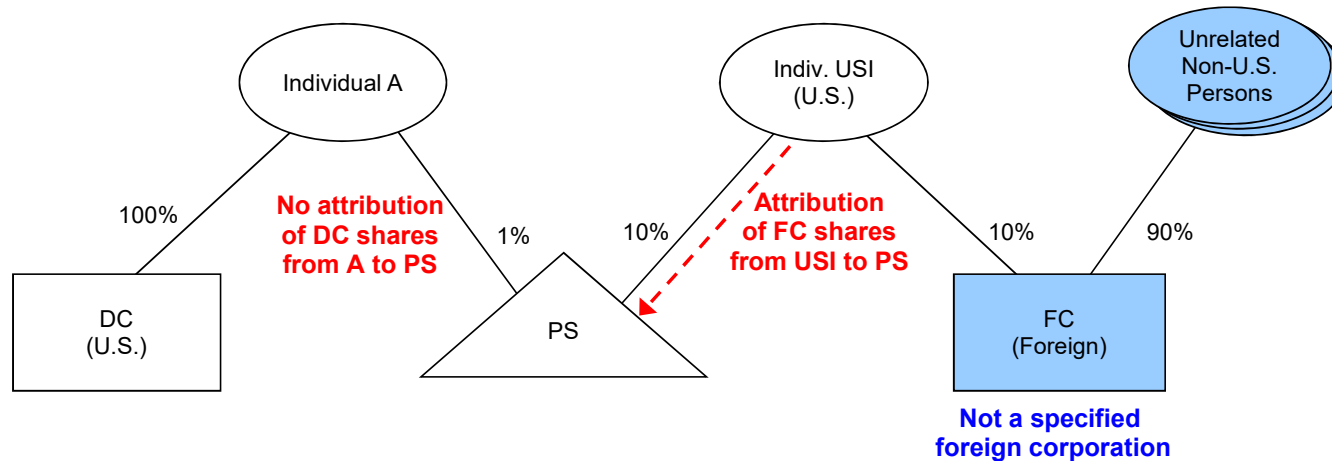


**Prop'd Reg. 1.965-1(g),
Example 1**

**Special Non-Attribution Rule For P'ships in
Defining Specified Foreign Corporations**

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A, an individual, owns 100% of the stock of a domestic corporation, DC, and 1% of the interests in a partnership, PS. A United States citizen, USI, owns 10% of the interests in PS and 10% by vote and value of the stock of a foreign corporation, FC. The remaining 90% by vote and value of the stock of FC is owned by non-United States persons that are unrelated to A, USI, DC, and PS.

Absent the application of the applicable attribution rules, FC would not be a specified foreign corporation, because FC is not a controlled foreign corporation and there would be no domestic corporation that is a United States shareholder of FC. However, applying the attribution rules (absent the special attribution rule in Prop. Reg. 1.965-1(f)(45)(ii)), PS would be treated as owning 100% of the stock of DC and 10% of the stock of FC. As a result, DC would be treated as owning the stock of FC treated as owned by PS, and thus DC would be a United States shareholder with respect to FC, causing FC to be a specified foreign corporation. The results would be the same whether A or PS or both are domestic or foreign persons.

Under the special attribution rule in Prop. Reg. 1.965-1(f)(45)(ii), solely for purposes of determining whether a foreign corporation is a specified foreign corporation within the meaning of section 965(e)(1)(B) and Prop. Reg. 1.965-1(f)(45)(i)(B), the stock of DC owned by A is not considered as being owned by PS under sections 958(b) and 318(a)(3)(A) and Reg. 1.958-2(d)(1)(i), because A owns less than 5% of the interests in PS's capital and profits. Accordingly, FC is not a specified foreign corporation within the meaning of section 965(e)(1)(B) and Prop. Reg. 1.965-1(f)(45)(i)(B).