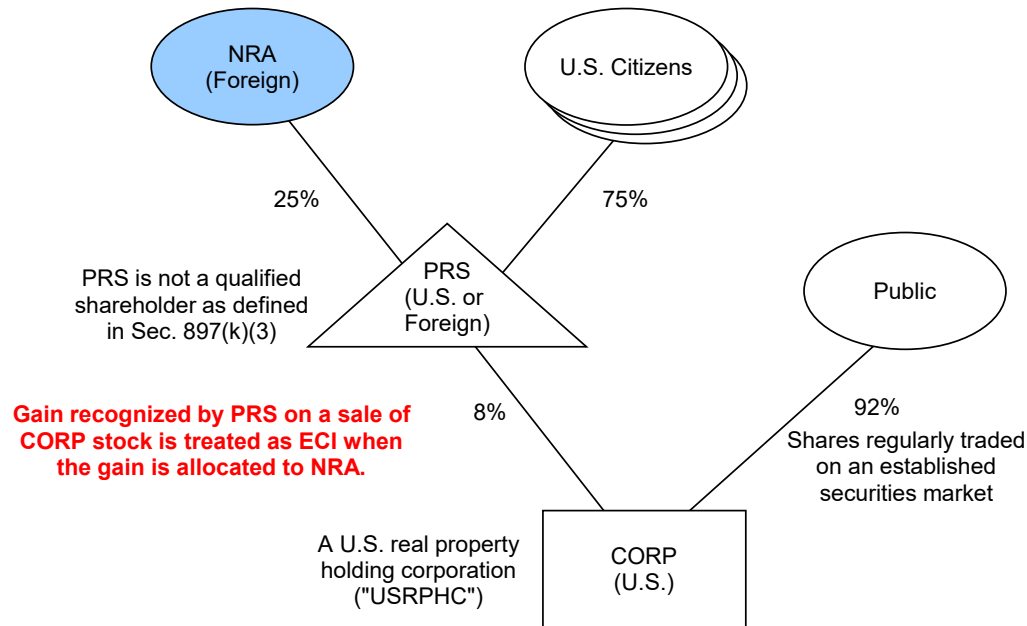


## Partnership Treated As Entity Under 897(c)(3)



PRS is a partnership. CORP, a domestic corporation, is a United States real property holding corporation ("USRPHC"), within the meaning of section 897(c)(2). CORP's stock is regularly traded on an established securities market within the meaning of section 897(c)(3). NRA, a nonresident alien individual, owns a 25% interest in the capital and profits of PRS. The other partners of PRS are U.S. citizens, unrelated to NRA.

PRS holds 8% of the outstanding stock of CORP. NRA owns no stock of CORP, directly or constructively, aside from its ownership of CORP stock through its interest in PRS. PRS disposes of all of its CORP stock. Gain is recognized on the disposition of the CORP stock and is allocated proportionately to each of PRS's partners, including NRA.

The memorandum concludes that it is more appropriate to treat the PRS partnership as an entity (rather than as an aggregate) in the context of section 897(c)(3). Because PRS holds more than 5% of the stock of CORP, the regularly traded exception in section 897(c)(3) does not apply. Therefore, the stock is considered a USRPI with respect to any foreign partner of PRS and, when PRS disposes of its stock of CORP, NRA is allocated his or her allocable share of the gain recognized on the disposition. Under section 897(a), NRA's gain on the disposition is effectively connected income.