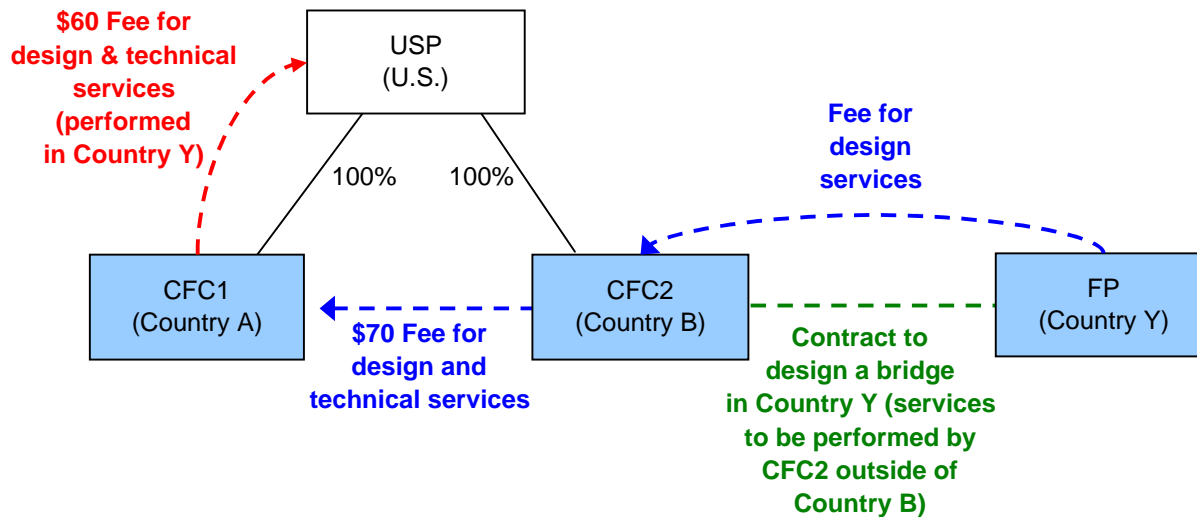


Notice 2007-13, Example 3

Substantial Assistance: Indirect Services - No Sub F

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| | | |
|---------------------------------|-----------|----------------------------------|
| CFC2 Fee to CFC1 | 70 | (60 indirectly performed by USP) |
| Costs incurred directly by CFC2 | <u>30</u> | |
| Total Costs | 100 | |

USP, a U.S. corporation, wholly owns CFC1 and CFC2, each a foreign corporation. CFC2 enters into a contract with FP, an unrelated person, to design a bridge in Country Y, a foreign country that is not CFC2's country of organization. With respect to the contract with FP, USP performs services in Country Y for CFC1 in the form of design and technical services for which CFC1 pays USP \$60x. CFC1, in turn contracts with CFC2 to provide those services and others to CFC2 for \$70x. CFC2 uses those services together with services it performs itself that cost CFC2 \$30x to design the bridge for FP. CFC2 is not treated as receiving substantial assistance in the performance of that contract because more than 20% of the cost of that contract is attributable to services furnished directly by CFC2.

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