USP, a domestic corporation, owns 100% of the stock of CFC1 and CFC2. USP sells inventory to CFC1 in exchange for receivables. USP sells the CFC1 receivables to CFC2 at a discount, and CFC2 generates income on the collection of the CFC1 receivables.

The income earned by CFC2 on the collection of receivables is related person factoring income as defined in section 864(d) and, therefore, is treated as interest income received on a loan from CFC2 to CFC1. However, because CFC2 acquired the CFC1 receivables from USP at a discount, resulting in a current loss for USP, such interest income is not eligible for the section 954(c)(6) exception.