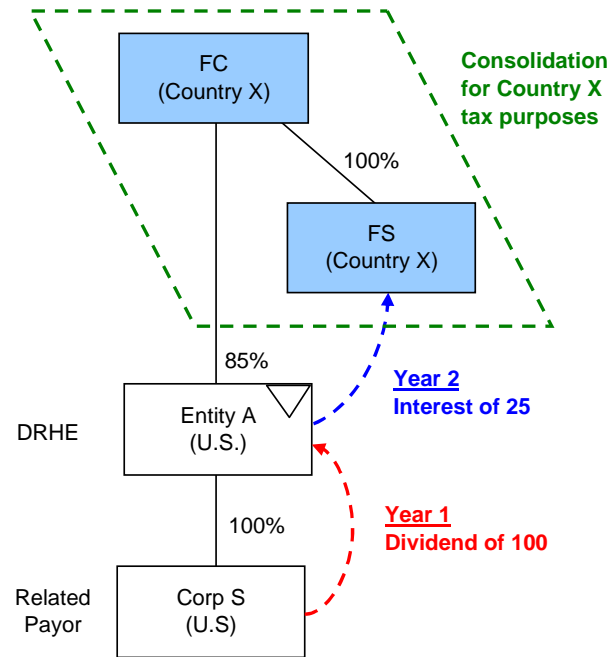


Payment to Related Tax-Consolidated Entity



▽ Domestic reverse hybrid entity ("DRHE") - Not fiscally transparent (not "flow-thru") for U.S. tax purposes but fiscally transparent for foreign tax purposes.

The facts are the same as Example 3, except that in year 2, A makes the interest payment of \$25 to FS, a subsidiary of FC also organized in Country X. Under the laws of Country X, FS is not fiscally transparent. In addition, for Country X tax purposes the income and losses of FS may be used to offset the income and losses of FC.

The analysis is the same as in Example 1 with respect to the \$100 dividend payment from S to A. Because FC and FS are effectively consolidated for Country X tax law purposes (FS income & losses offset FC income & losses), the \$25 interest payment by A to FS is treated as a dividend to the extent the \$25 payment does not exceed FC's share of the \$100 dividend payment made by S to A (\$85). Since FS is not fiscally transparent, FS is entitled to obtain the rate applicable to dividends under the U.S.-Country X income tax treaty with respect to the \$25 payment. A is not entitled to an interest deduction with respect to the payment.