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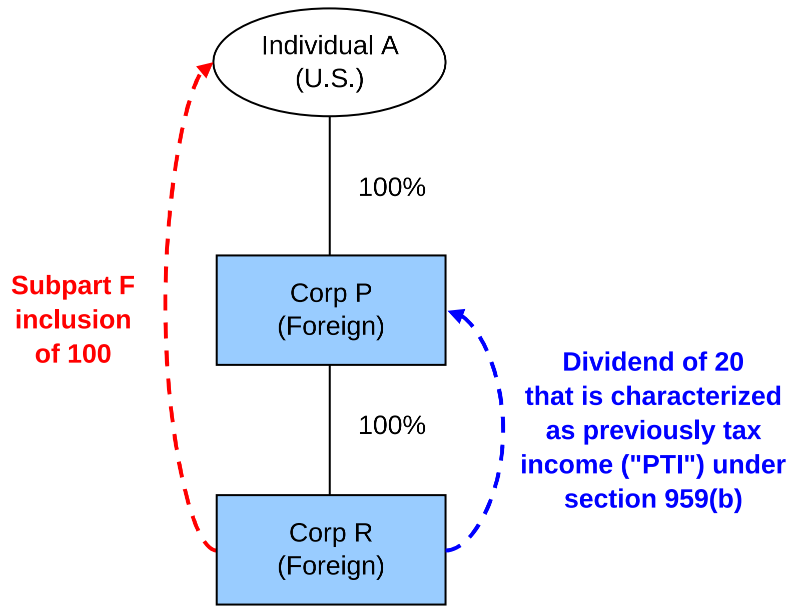
Reg. 1.951-1(b)(2), Example 4

Hopscotch Rule & PTI Dividend

The subpart F income recognized by Corp R "hops" over Corp P and flows directly to A. This "hop" is known as the hopscotch rule.



100 of Subpart F income
100 of current E&P
Dividend of 20 to Corp P

A, a United States shareholder, owns 100% of the only class of stock of P, a controlled foreign corporation throughout 1963, and P owns 100% of the only class of stock of R, a controlled foreign corporation throughout 1963. A and Corporations P and R each use the calendar year as a taxable year. For 1963, Corp R derives $100 of subpart F income, has $100 of earnings and profits, and distributes a dividend of $20 to Corp P. Corp P has no income for 1963 other than the dividend received from Corp R. A must include $100 in his gross income for 1963 under section 951(a)(1)(A)(i) as subpart F income of Corp R for such year. Such subpart F income is not reduced under sec. 951(a)(2)(B) for the dividend of $20 paid to Corp P because there was no part of the year 1963 during which A did not own (within the meaning of section 958(a)) the stock of Corp R. By reason of the application of section 959(b), the $20 distribution from Corp R to Corp P is not again includible in the gross income of A under section 951(a).