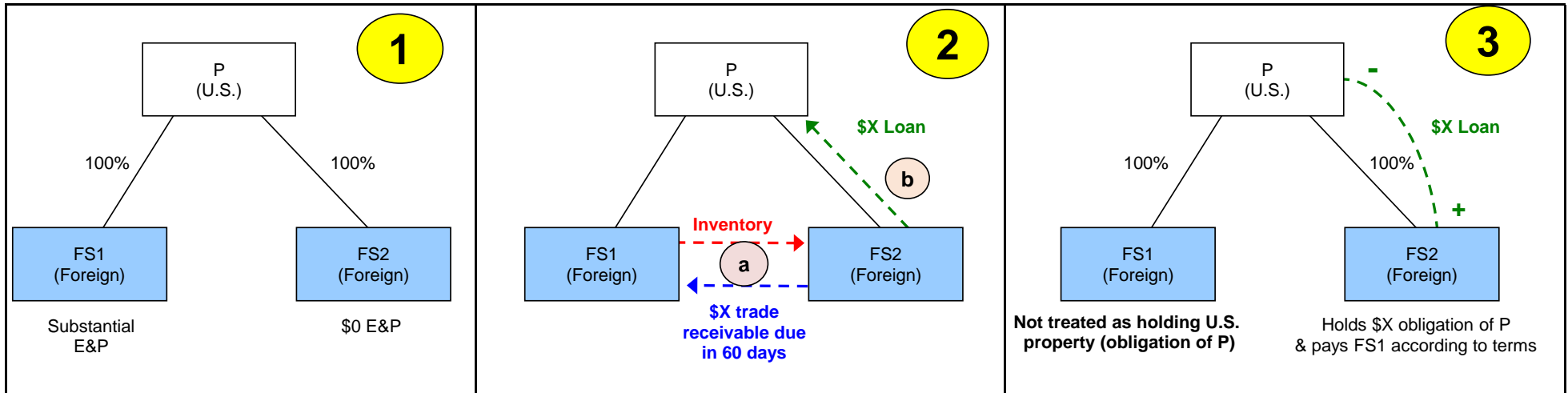


**U.S. Property Held Indirectly by a CFC -
Avoiding Code §956 Not a Principal Purpose**

Initial Structure

Sale of Inventory, Loan to P

Ending Point



P is a domestic corporation that wholly owns two controlled foreign corporations, FS1 and FS2.

FS1 sells inventory to FS2 in exchange for trade receivables due in 60 days. Avoiding the application of Code §956 with respect to FS1 was not a principal purpose of establishing the trade receivables. FS2 has no earnings and profits, and FS1 has substantial accumulated earnings and profits. FS2 makes a loan to P equal to the amount it owes FS1 under the trade receivables. FS2 pays the trade receivables according to their terms.

FS1 will not be considered to indirectly hold United States property under Treas. Reg. §1.956-1(b) because the funding of FS2 through the sale of inventory in exchange for the establishment of trade receivables was not undertaken with a principal purpose of avoiding the application of Code §956 with respect to FS1.