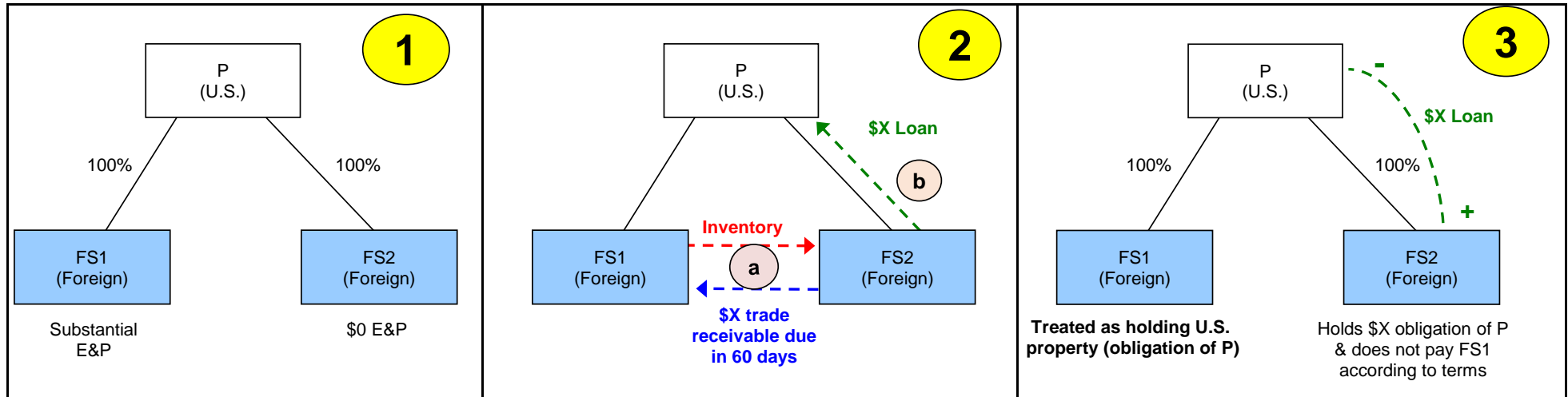


**U.S. Property Held Indirectly by a CFC -
Avoiding Code §956 a Principal Purpose**

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. 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. With a principal purpose of avoiding the application of Code §956 with respect to FS1, FS1 and FS2 agree to defer FS2's payment obligation, and FS2 does not timely pay the trade receivables.

FS1 is considered to hold indirectly United States property under Treas. Reg. §§1.956-1(b) and §1.956-2(a) because there was a funding of FS2, a principal purpose of which was to avoid the application of Code §956 with respect to FS1.