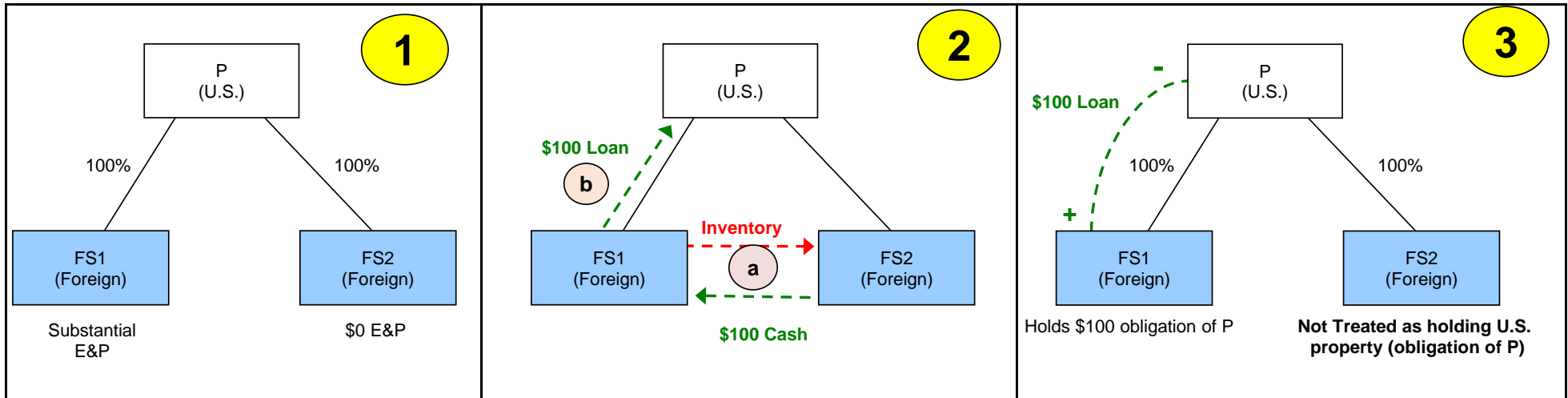


**U.S. Property Held Indirectly by a CFC -
Arm's Length Transactions**

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 \$100x. The sale occurred in the ordinary course of FS1's trade or business and FS2's trade or business, and the terms of the sale are consistent with terms that would be observed among parties dealing at arm's length. FS1 makes a \$100x loan to P. FS2 has no earnings and profits, and FS1 has substantial accumulated earnings and profits.

FS2 will not be considered to indirectly hold United States property under Treas. Reg. §1.956-1(b) because a sale in the ordinary course of business for cash on terms that are consistent with those that would be observed among parties dealing at arm's length does not constitute a funding.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)