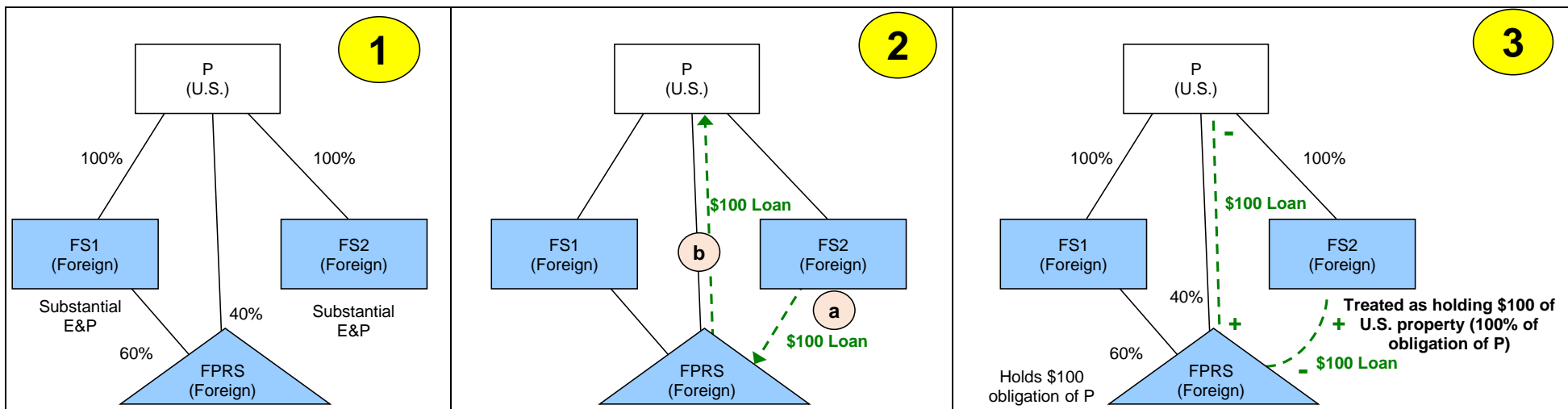


**U.S. Property Held Indirectly by a CFC -  
Loan Funded Thru Debt to Foreign Partnership**

**Initial Structure**

**Back to Back Loans**

**Ending Point**



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

FS1 and FS2 have substantial earnings and profits. P and FS1 are the only partners in FPRS, a foreign partnership. There are no special allocations in the FPRS partnership agreement. P's liquidation value percentage with respect to FPRS is 40%, and FS1's liquidation value percentage with respect to FPRS is 60%. FS2 lends \$100x to FPRS, and FPRS lends \$100x to P. Under §1.956-4(c) and §1.956-2(a), FS2 is treated as holding United States property of \$40x (40% x \$100x) as a result of its loan to FPRS. A principal purpose of funding FPRS is to avoid the application of Code §956 with respect to FS2.

Before taking into account Treas. Reg. §1.956-1(b)(3), because FS2 controls FPRS and a principal purpose of funding FPRS was to avoid the application of Code §956 with respect to FS2, FS2 is considered under Treas. Reg. §1.956-1(b)(1)(iii) to indirectly hold the \$100x obligation of P that would be United States property if held directly by FS2. However, under Treas. Reg. §1.956-1(b)(3), FS2 is treated as holding United States property under Treas. Reg. §1.956-1(b)(1)(iii) only to the extent the amount held indirectly under Treas. Reg. §1.956-1(b)(1)(iii) exceeds the amount of United States property that FS2 is treated as holding as a result of the application of Treas. Reg. §1.956-4(c) with respect to the obligation with which FS2 funds FPRS. The amount of United States property that FS2 is treated as indirectly holding under Treas. Reg. §1.956-1(b)(1)(iii) and Treas. Reg. §1.956-2(a) (\$100x) exceeds the amount determined under Treas. Reg. §1.956-4(c) (\$40x) by \$60x. Thus, FS2 is considered to hold United States property within the meaning of Code §956(c) in the amount of \$100x (\$40x under Treas. Reg. §1.956-4(c) and \$60x under Treas. Reg. §§1.956-1(b)(1)(iii) and (b)(3). P does not have an income inclusion under Code §§951(a)(1)(B) and 956 with respect to FS1 related to the P obligation held by FPRS.