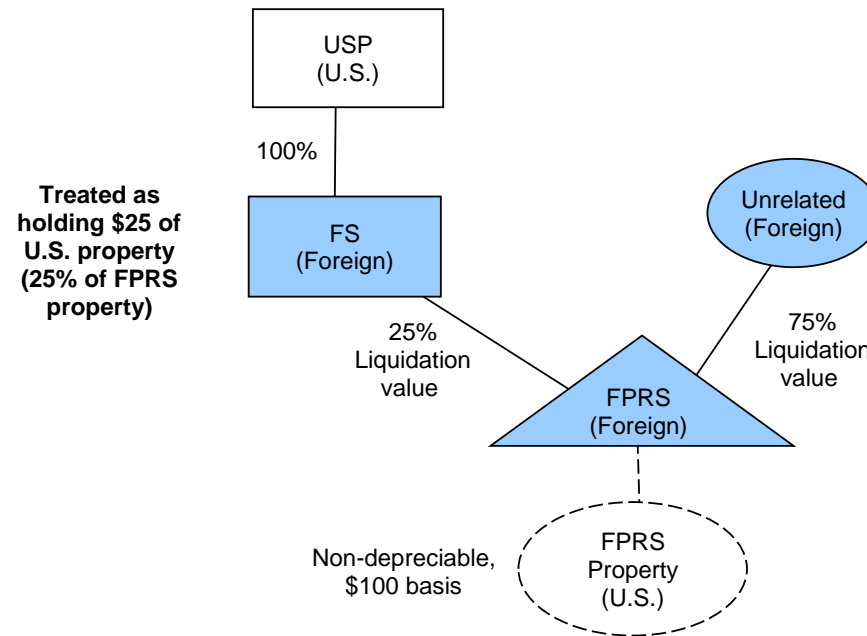


## Reg. 1.956-4(b)(3), Ex. 1

### U.S. Property Held Indirectly Through Foreign Partnership

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USP, a domestic corporation, wholly owns FS, a controlled foreign corporation, which, in turn, owns an interest in FPRS, a foreign partnership. The remaining interest in FPRS is owned by an unrelated foreign person. FPRS holds nondepreciable property with an adjusted basis of \$100x (the “FPRS property”) that would be United States property if held by FS directly. At the close of quarter 1 of year 1, the liquidation value percentage, as determined under Treas. Reg. §1.956-4(b)(2), for FS with respect to FPRS is 25%. There are no special allocations in the FPRS partnership agreement.

Under Treas. Reg. §1.956-4(b)(1), for purposes of Code §956, FS is treated as holding its attributable share of the property held by FPRS with an adjusted basis equal to its attributable share of FPRS's adjusted basis in such property. Under Treas. Reg. §1.95-4(b)(2), FS's attributable share of property held by FPRS is determined in accordance with FS's liquidation value percentage, which is 25%. Thus, FS's attributable share of the FPRS property is 25%, and its attributable share of FPRS's basis in the FPRS property is \$25x. Accordingly, for purposes of determining the amount of United States property held by FS as of the close of quarter 1 of year 1, FS is treated as holding United States property with an adjusted basis of \$25x.

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