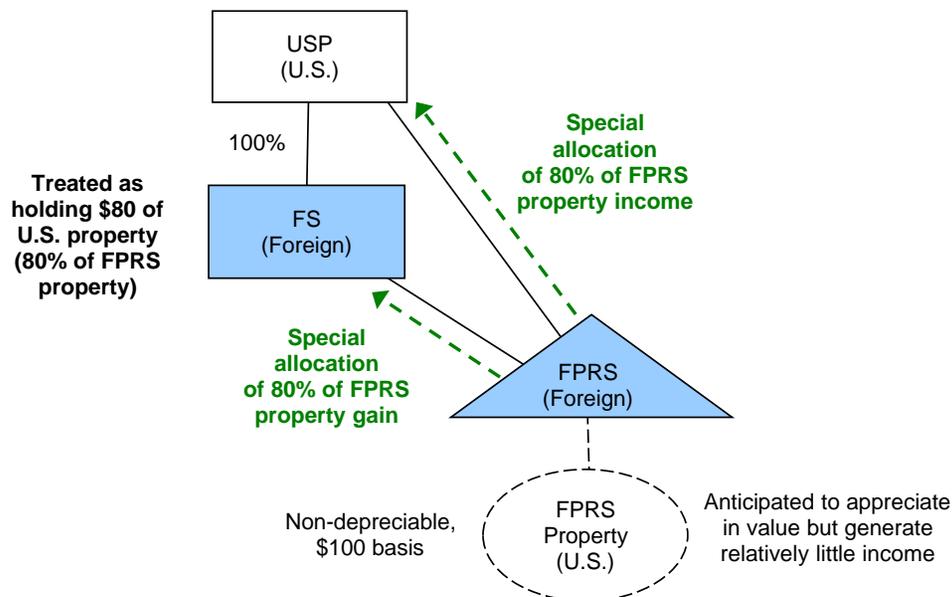


**U.S. Property Held Indirectly Through Partnership
Special Allocations of Income & Gain**



USP, a domestic corporation, wholly owns FS, a controlled foreign corporation, which, in turn, owns an interest in FPRS, a foreign partnership. USP owns the remaining interest in FPRS. FPRS holds property (the “FPRS property”) that would be United States property if held by FS directly. The FPRS property has an adjusted basis of \$100x and is anticipated to appreciate in value but generate relatively little income. The FPRS partnership agreement, which satisfies the requirements of Code §704(b), specially allocates 80% of the income with respect to the FPRS property to USP and 80% of the gain with respect to the disposition of FPRS property to FS. The special allocation does not have a principal purpose of avoiding the purposes of Code §956.

Because the special allocation does not have a principal purpose of avoiding the purposes of Code §956, under Treas. Reg. §1.956-4(b)(2)(ii), FS's attributable share of the FPRS property is determined by reference to a special allocation with respect to the FPRS property. Given the income and gain anticipated with respect to the FPRS property, it is appropriate to determine FS's attributable share of the property in accordance with the special allocation of gain. Accordingly, for purposes of determining the amount of United States property held by FS in each year that FPRS holds the FPRS property, FS's attributable share of the FPRS property is 80% and its attributable share of FPRS's basis in the FPRS property is \$80x. Thus, FS is treated as holding United States property with an adjusted basis of \$80x.

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