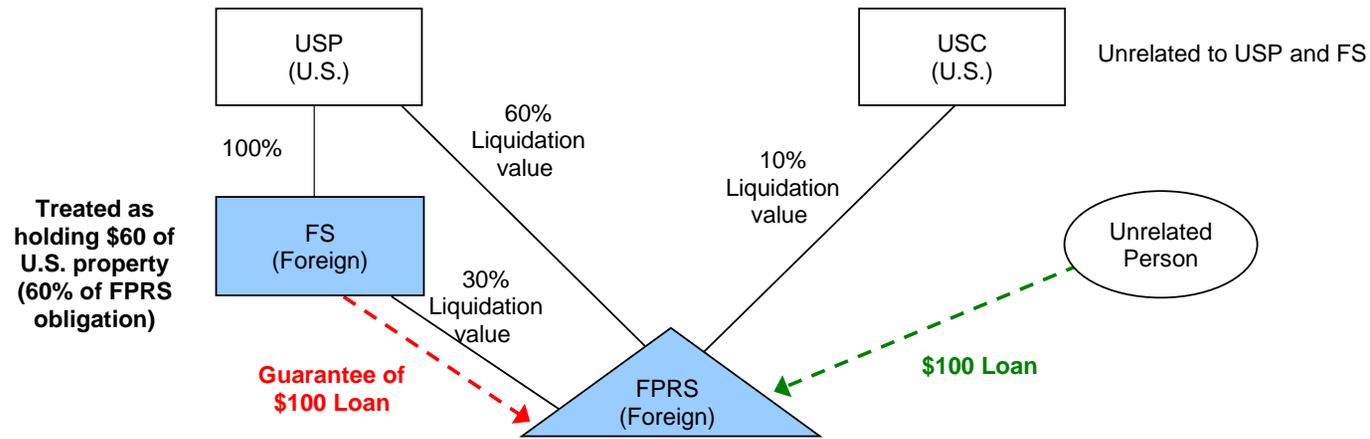


Reg. 1.956-4(c)(4), Ex. 3

CFC Guarantee of Loan to Foreign Partnership With Related U.S. Partner

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USP, a domestic corporation, wholly owns FS, a controlled foreign corporation. USP and FS own interests in FPRS, a foreign partnership. USP's liquidation value percentage with respect to FPRS is 60%, and FS's liquidation value percentage with respect to FPRS is 30%. USC, a domestic corporation that is unrelated to USP and FS, also owns an interest in FPRS; its liquidation value percentage is 10%. FPRS borrows \$100x from an unrelated person. FS guarantees the FPRS obligation.

Under Treas. Reg. §1.956-4(c)(1), for purposes of Code §956, the obligation of FPRS is treated as obligations of its partners (USP, FS, and USC) in proportion to each partner's liquidation value percentage. Because USP, a partner in FPRS, is related to FS within the meaning of Code §954(d)(3), and because FS is a partner in FPRS, the exception in Treas. Reg. §1.956-4(c)(2) does not apply. Based on their liquidation value percentages, USP's share of the FPRS obligation is \$60x, and USC's share of the FPRS obligation is \$10x. For purposes of Code §956, \$60x of the FPRS obligation is treated as an obligation of USP, and \$10x of the FPRS obligation is treated as an obligation of USC. Under Treas. Reg. §1.956-2(c)(1), FS is treated as holding the obligations of USP and USC that FS guaranteed. All of the exceptions to the definition of United States property contained in Code §956 and Treas. Reg. §1.956-2 must be considered to determine whether the obligations of USP and USC that are treated as held by FS constitute United States property. Accordingly, the obligation of USC is not United States property under Code §956(c)(2)(F) and Treas. Reg. §1.956-2(b)(1)(viii). The obligation of USP, however, is United States property within the meaning of Code §956(c). Therefore, on the date the guarantee is made, FS is treated as holding United States property of \$60x.