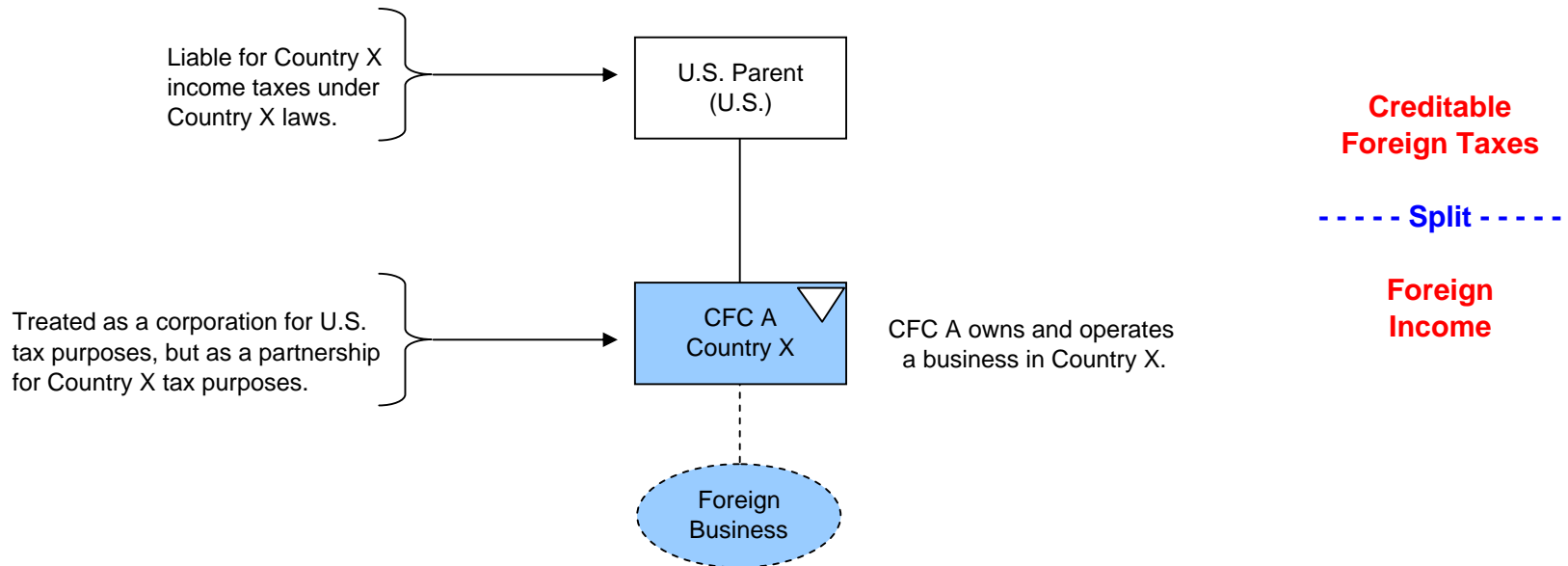


Example of Foreign Tax Credit "Splitter" Structure

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▽ Means "fiscally transparent" for foreign tax purposes, but not fiscally transparent for U.S. tax purposes (i.e., a "reverse hybrid" entity).

CFC A is a "reverse hybrid" entity because it is treated as a fiscally transparent for foreign tax purposes, but it is treated as a corporation for U.S. tax purposes.

Section 901 allows a credit against Federal income tax (subject to certain limitations) for the amount of foreign income taxes paid by the taxpayer. A foreign tax paid is "creditable" if the taxpayer is legally liable under foreign law for payment of the tax. See Reg. 1.901-2(f)(1) and Rev. Rul. 72-197. In the above circumstances, foreign law treats the U.S. Parent as being liable for Country X income taxes imposed on the income earned by CFC A. Therefore, it is U.S. Parent that is entitled to claim the foreign tax credits, even if the income of CFC A is not currently taxed in the U.S. The foreign tax credits are "split" from the foreign income.

New Code § 909 defers the foreign tax credits until the related income is repatriated.

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