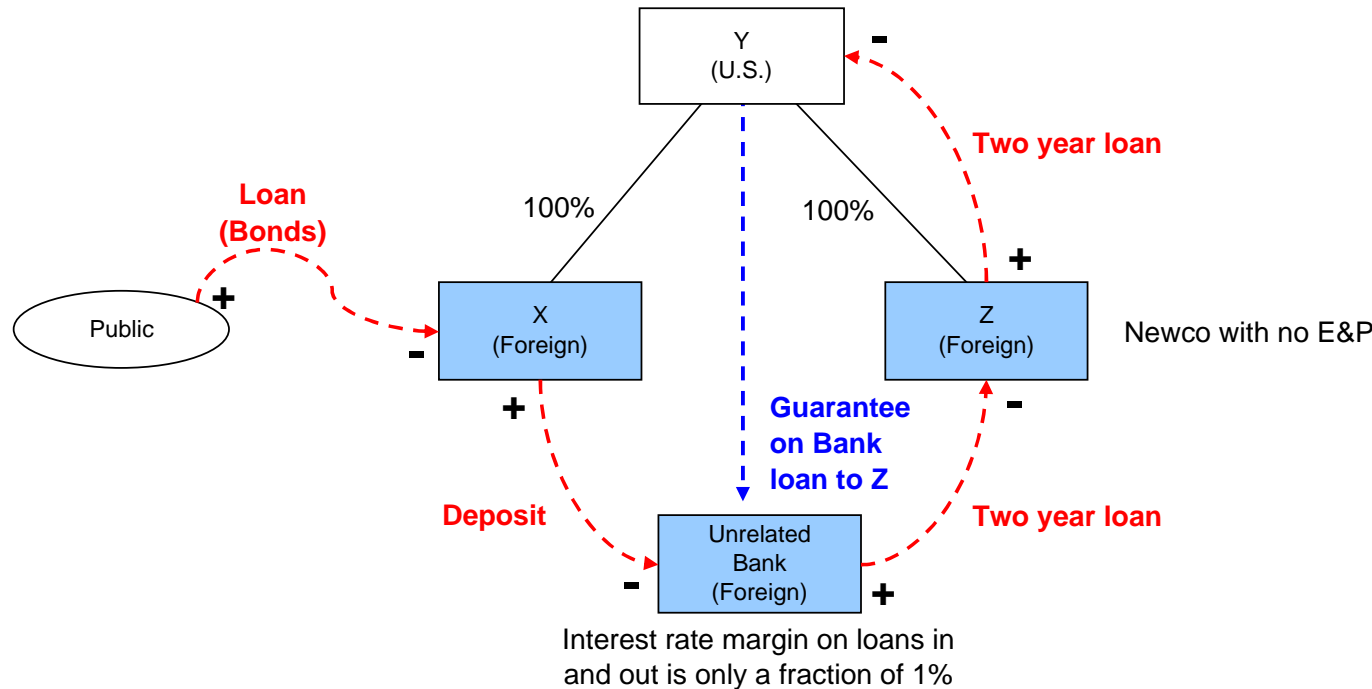


**CFC Created to Avoid Section 956**



Section 956(a)(1) provides that the amount of earnings of a CFC invested in U.S. property is the amount of such property held, directly or indirectly, by the CFC to the extent that such amount would have constituted a dividend if it had been distributed. The inclusion is based on a quarter-end average. "United States property" includes an obligation of a U.S. person (with certain exceptions not applicable here).

Because Z did not have any E&P, it could not pay any dividends and any U.S. property it held would not create a section 956 inclusion. Former Reg. 1.956-1(b)(3) [current Temp. Reg. 1.956-1T(b)(4)] provides that a CFC ("X") will be considered to hold indirectly the investments in U.S. property held on its behalf by a related CFC ("Z") which is created or availed of principally for the purpose of holding U.S. property.

The ruling holds that in this case Z was availed of principally for the purpose of holding Y's obligation and that Z held it on behalf of X. There was an overall plan to enable Y to obtain funds from its foreign subsidiaries. The facts indicate that the Unrelated Bank would not have made the loan to Z without the deposit by X. Therefore, X will be treated as having made the investment in U.S. property.