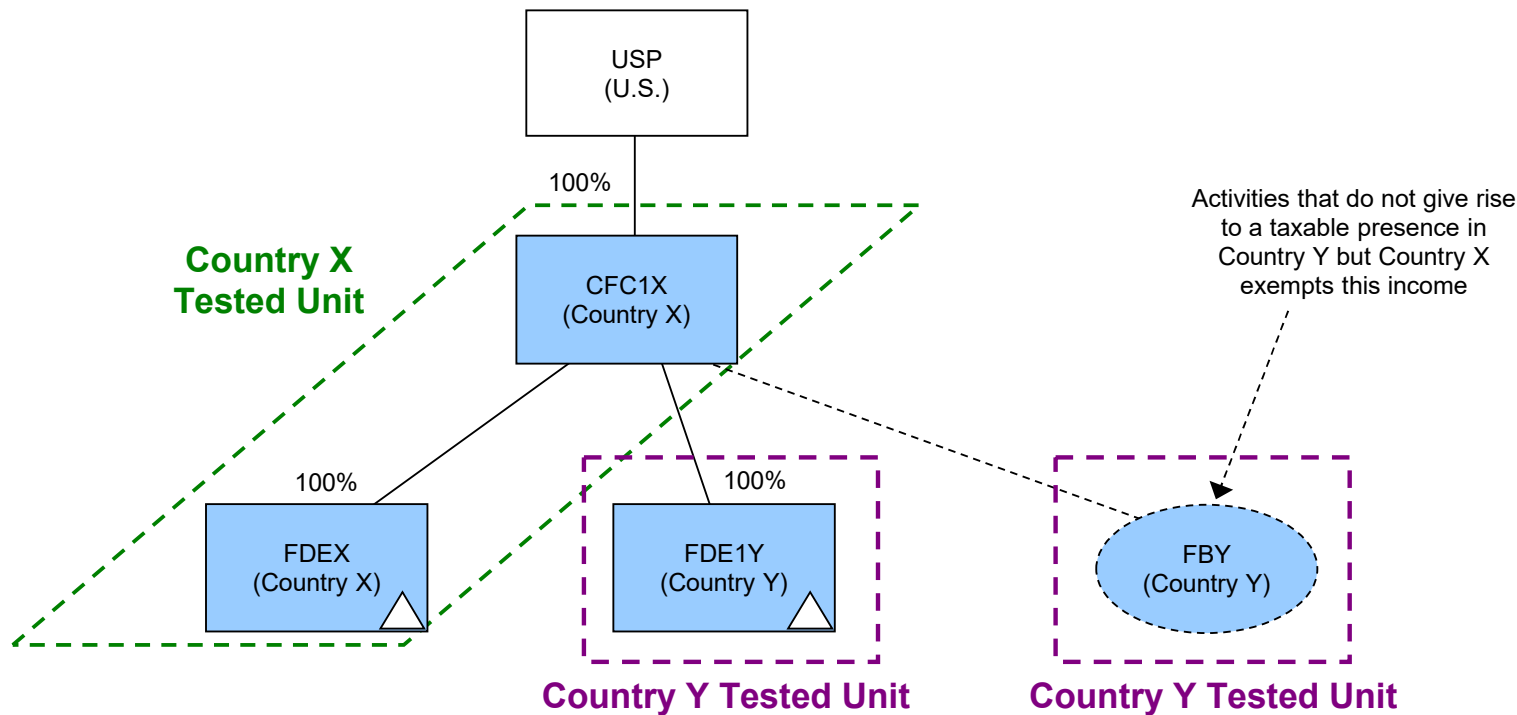


**Reg. 1.951A-2(c)(8)(iii)(D),  
Example 4, Alternative  
Facts 2**

**A CFC With Exempted  
Activities, But Not a Taxable  
Branch, In a Foreign  
Country**

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USP owns all of the stock of CFC1X. CFC1X directly owns all the interests of FDEX and FDE1Y. In addition, CFC1X directly carries on activities in Country Y ("FBY") that do not give rise to a taxable presence under Country Y tax law; but Country X tax law provides an exclusion, exemption, or other similar relief (such as a preferential rate) with respect to income attributable to FBY.

FBY is a tested unit. See Reg. 1.951A-2(c)(7)(iv)(A)(3). CFC1X has two tested units in Country Y, the interest in FDE1Y and FBY. The interest in FDE1Y and FBY tested units are not combined because FBY does not give rise to a taxable presence under the tax law of Country Y. See Reg. 1.951A-2(c)(7)(iv)(C)(2). CFC1X also has a tested unit in Country X that includes the activities of CFC1X (without regard to any items related to the interest in FDEX, the interest in FDE1Y, or FBY) and the interest in FDEX.