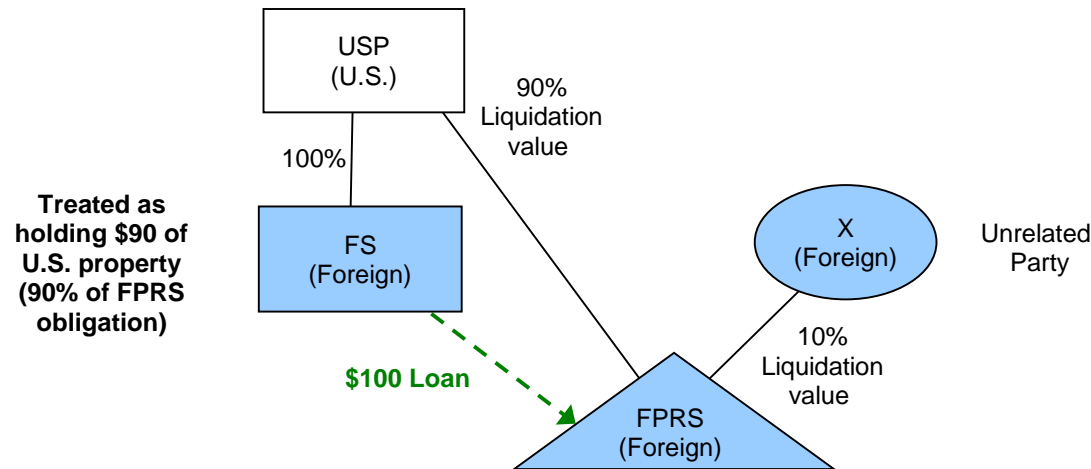


Reg. 1.956-4(c)(4), Ex. 1

CFC Loan to Foreign Partnership With Related U.S. Partners

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USP, a domestic corporation, wholly owns FS, a controlled foreign corporation, and owns an interest in FPRS, a foreign partnership. At the close of quarter 1 of year 1, the liquidation value percentage, as determined under Treas. Reg. §1.956-4(b)(2)(i), for USP with respect to FPRS is 90%. X, a foreign person that is unrelated to USP or FS, owns the remaining interest in FPRS. FPRS borrows \$100x from FS. FS's basis in the FPRS obligation is \$100x.

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 and X) in proportion to each partner's liquidation value percentage with respect to FPRS. Because USP, a partner in FPRS, is related to FS within the meaning of Code §954(d)(3), the exception in Treas. Reg. §1.956-4(c)(2) does not apply. Based on its liquidation value percentage, USP's share of the FPRS obligation is \$90x. Accordingly, for purposes of Code §956, \$90x of the FPRS obligation held by FS is treated as an obligation of USP and is United States property within the meaning of section 956(c). Therefore, on the date the loan is made, FS is treated as holding United States property of \$90x.

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