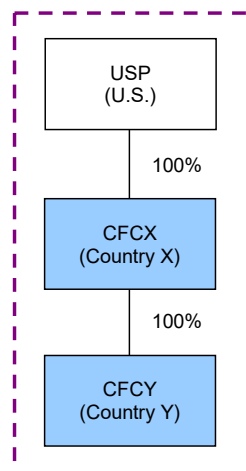


MNE Group (under Country X Law)



USP deemed paid tax under §960(d) \$4 (no credit allowed)
\$78 gross-up \$5

CFCX is liable for \$5 of Country X IIR
(no credit is allowed for USP because the IIR takes into account USP's U.S. tax liability)

Country X imposes an income inclusion rule tax (an "IIR") on certain entities resident in Country X. The IIR imposed by Country X is a foreign income tax within the meaning of §1.901-2(a) and (b). Under Country X tax law, in computing the amount of the IIR, the foreign tax liability of the direct and indirect owners of the Country X taxpayers that relates to income subject to the IIR is taken into account if those owners are part of the same MNE Group (as defined under Country X tax law) as the Country X taxpayers. USP is a domestic corporation that owns all the stock of CFCX, a CFC that is organized in, and is a tax resident of, Country X. CFCX owns all the stock of CFCY, a CFC that is organized in, and is a tax resident of, Country Y. Under Country X tax law, USP is considered part of the same MNE Group as CFCX and CFCY, and, therefore, any U.S. tax liability of USP that relates to income subject to the IIR is taken into account in computing the IIR. In 2024, CFCX is liable for 5u (units of Country X currency) of the Country X IIR. At all relevant times, 1u = \$1. USP is deemed to pay \$4 of the Country X IIR under §960(d). USP chooses to credit foreign income taxes for 2024.

The Country X IIR is a final top-up tax because it is a foreign income tax that takes into account the amount of tax imposed by other countries on the direct or indirect owners of the entity subject to the Country X IIR with respect to the income subject to the Country X IIR. No credit is allowed under §901 to USP for the \$4 of Country X IIR that USP is deemed to pay because, under Country X tax law, USP's U.S. federal income tax liability may be taken into account in computing the Country X IIR. This result does not depend on whether USP has any amount of U.S. federal income tax liability or whether any of that liability is, in fact, taken into account in computing the Country X IIR. The amount included in USP's income by reason of §78 and §1.78-1(a) is \$5.