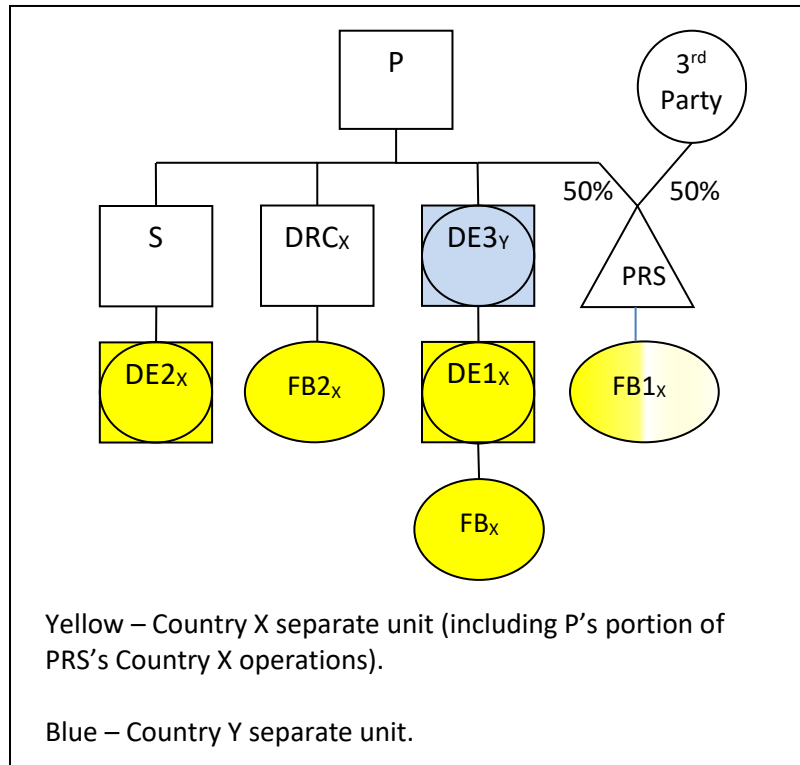


Treas. Reg. §1.1503(d)-7
Example 1

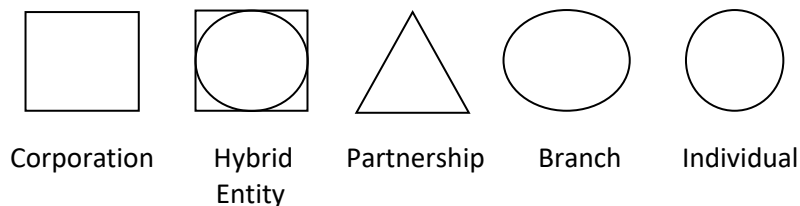
Separate Unit Combination Rule



Facts - P owns DE3_y which, in turn, owns DE1_x. DE1_x owns FB_x. PRS, an entity treated as a partnership for both U.S. and Country X tax purposes, is owned 50 percent by P and 50 percent by an unrelated foreign person. PRS carries on a business operation in Country X that, if carried on by a U.S. person, would constitute a foreign branch within the meaning of §1.367(a)-6T(g)(1). In addition, P owns DRC_x, a member of the consolidated group of which P is the parent, which carries on business operations in Country X that constitute a foreign branch within the meaning of §1.367(a)-6T(g)(1). S owns DE2_x.

Result - Pursuant to §1.1503(d)-1(b)(4)(ii), the interest in DE1_x, the interest in DE2_x, FB_x, P’s share of the Country X business operations (referred to as “FB1_x”) carried on by PRS (which is owned by P indirectly through its interest in PRS), and DRC_x’s Country X business operations (referred to as “FB2_x”) are combined and treated as a single separate unit of the consolidated group of which P is the parent. This is the case regardless of whether the losses of each individual separate unit are made available to offset the income of the other individual separate units under Country X tax laws. Because DRC_x is a dual resident corporation, it is not combined and treated as part of this combined separate unit and, as a result, DRC_x’s income or dual consolidated loss is not taken into account in determining the income or dual consolidated loss of the combined separate unit. In addition, P’s interest in DE3_y is not combined and is another separate unit because it is subject to tax in Country Y, rather than Country X.

Legend



Background facts for all Treas. Reg. §1.1503(d)-7 examples are provided in the file titled “1503(d) Example Facts”.