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LEGEND

Taxpayer =

US1 =

F1 =

F2 =

FC =

LLP =

Country A =

Country B =

a =

b =

c =

d =

e =

Dear :

This replies to a letter from your authorized representative dated July 25, 2007, and subsequent correspondence requesting a ruling on the applicability of section 956 and Treas. Reg. § 1.956-2(a)(3) to a proposed partnership arrangement between a controlled foreign corporation ("CFC"), a related domestic corporation and an unrelated third party.

FACTS

Taxpayer is a domestic corporation and the parent of a consolidated group. US1 is a domestic corporation that is wholly owned by Taxpayer. F1 is foreign corporation formed under the laws of Country B. F1 is a CFC, as defined in section 957(a), and is wholly owned by a member of the Taxpayer's consolidated group. F2 is foreign corporation formed under the laws of Country B. F2 is a CFC, as defined in section 957(a), and is wholly owned indirectly by a member of the Taxpayer's consolidated group. Prior to the proposed transaction, F2 was a dormant corporation and did not hold United States property, as defined in section 956(c) ("US Property").

US1 conducts business in the United States (the "US Business"). F1 directly and through its foreign subsidiaries conducts business outside the United States (the "Non-US Business"). The assets of the US Business would constitute US Property if held by a CFC. None of the assets of the Non-US Business constitute US property.

As part of a plan to expand the US Business and the Non-US Business by providing access to additional capital and , Taxpayer intends to form a joint venture with FC, an unrelated third party. This joint venture will be undertaken through the formation of LLP, a limited liability partnership organized under the laws of Country A. For valid business purposes, FC required the use of a single entity as a condition for participation in the joint venture. LLP will be classified as a partnership for federal income tax purposes.

US1 will contribute $a for its partnership interest in LLP, F2 will contribute $b for its partnership interest in LLP, and FC will contribute $c for its partnership interest in LLP. F2 will obtain the $b through capital contributions from its shareholder or through loans. Shortly thereafter, LLP will purchase the US

Business from US1 for $d in a taxable transaction, and the Non-US Business from F1 for $e in a taxable transaction.

The US Business and the non-US Business, including subsequently acquired assets, will be maintained in separate legal entities owned by LLP and disregarded for federal income tax purposes (collectively designated as "LLC1" and "LLC2" for purposes of this ruling). LLC1 and LLC2 will maintain separate books and records and funds will not be loaned or transferred between such entities. LLC1 will own and conduct the US Business. LLC2 will own and conduct the Non-US Business and will not acquire or hold US Property. It is anticipated that FC will lend additional capital to LLP to fund the US Business and Non-US Business.

The LLP agreement specifies that F2 will share only in the income, gains, deductions and losses of the Non-US Business and will have liquidation rights only in assets of the Non-US Business. F2 will not share in any income, gains, deductions or losses from the US Business and will not have any rights to assets of the US Business upon a liquidation of the LLP.

REPRESENTATIONS

Taxpayer makes the following representations with respect to this ruling:

(a) The assets of the Non-US Business will not include US Property.

(b) LLP will be classified as a partnership for U.S. federal income tax purposes, and US1, F2 and FC will each be a partner in LLP for U.S. federal income tax purposes.

(c) F2 will have no rights to share in any income, gain, deduction or loss of the US Business and will have no right to receive any property from the US Business in liquidation of LLP.

(d) The allocations of income, gain, deduction and loss provided in the LLP agreement have substantial economic effect within the meaning of section 704(b).

(e) The US Business and the Non-US Business, activities of which are conducted within the LLP by LLC1 and LLC2 and with the involvement of FC, will each operate independently with its own employees in a manner that complies with all local legal and regulatory requirements, including tax and transfer pricing.

(f) LLP will not own any assets other than the US Business and the Non-US Business.

(g) LLP or LLC2 will not lend to a U.S. person or hold any obligation of a U.S. person other than obligations listed under section 956(c)(2).

(h) LLC2 will not loan or otherwise transfer funds or amounts to LLC1.

(i) The economic rights of US1 in the Non-US Business and US Business are consistent with the economic rights that US1 had in such businesses prior to the formation of LLP, and the economic rights of F2 in the Non-US Business and the US Business are consistent with the economic rights that F1 had in such businesses prior to the formation of LLP.

(j) Except for certain personnel changes and the involvement of FC in the arrangement, the US Business and the Non-US Business will be conducted in substantially the same manner as prior to the formation of the LLP.

(k) F2 will not be a direct or indirect pledgor or guarantor under Treas. Reg. § 1.956-2(c), and the Non-US Business will not serve at any time, even indirectly, as security for the performance of an obligation of a United States person as provided in Treas. Reg. § 1.956-2(c)(2).

LAW AND ANALYSIS

Section 951(a) requires that a U.S. shareholder of a CFC that owns stock in such corporation on the last day of the corporation's taxable year include in its gross income the amount determined under section 956 with respect to such shareholder for such year (but only to the extent not excluded from gross income under section 959(a)(2)). Section 951(a)(1)(B).

The amount determined under section 956 with respect to any U.S. shareholder for any taxable year is generally the lesser of the excess of such shareholder's "pro rata share of the average of the amounts of United States property held (directly or indirectly) by the CFC as of the close of each quarter of such taxable year" over (i) the amount of previously taxed income described in section 959(c)(1)(A) with respect to such shareholder, or (ii) such shareholder's pro rata share of the applicable earnings of such CFC. Section 956(a). US Property is defined generally to include, among other things, tangible property located in the United States. Section 956(c); Treas. Reg. § 1.956-2(a). For these purposes, the amount of US Property held by the CFC is determined with reference to the CFC's adjusted basis in such property. Section 956(a).

The purpose of section 956 is to prevent a CFC from repatriating earnings on which U.S. tax has been deferred by making investments in the United States. See H.R. Rep. No. 97-1447 (1962), at 58. Congress believed that U.S. shareholders of a

CFC should be taxed on such investments in the United States "on the grounds that this is substantially the equivalent of a dividend being paid to them." S. Rep. No. 87-1881 (1962), at 88.

Treasury Reg. § 1.956-2(a)(3) provides that:

> For purposes of section 956, if a controlled foreign corporation is a partner in a partnership that owns property that would be United States property . . . if owned directly by the controlled foreign corporation, the controlled foreign corporation will be treated as holding an interest in the property equal to its interest in the partnership and such interest will be treated as an interest in United States property.

Accordingly, a CFC that has an economic interest in US Property through a partnership would be considered to have an interest in US Property for purposes of section 956 in accordance with the substance of the arrangement. On the other hand, a CFC that does not have, directly or indirectly, any economic interest in US Property through a partnership, including a profits interest, a capital interest, a liquidation right, or any other interest, does not have an interest in US Property for purposes of section 956.

RULING

In the present case, with respect to US1, the US Business of LLP will be conducted in the same manner as before the formation of the LLP. F2 will not have an economic interest in the US Business conducted by LLC1, including a profit or capital interest, liquidation rights, or any other interest. As part of the LLP arrangement, LLC1 will continue the pre-existing US Business in which F1 did not have an economic interest prior to the formation of the LLP. Therefore, because F2 will not have any economic interest in the US Business after the formation of LLP, no economic interest in US Property is being shifted from a CFC to a non-CFC, and LLC1 will not receive any loans, other funds or credit support from LLC2, we conclude that F2's status as a partner in LLP will not cause F2 to be treated as holding an interest in the US Business under Treas. Reg. § 1.956-2(a)(3).

CAVEATS

Other than expressly provided, no ruling is provided regarding the application of section 956 or Treas. Reg. § 1.956-2(a)(3), including the application of such provisions if the LLP agreement is modified to change the partners' interests or rights in the US Business or Non-US Business. Further, no ruling is provided on the application of special partnership allocations to other Code sections, including, for example, section

875. In addition, no opinion is expressed regarding the tax effects of the transfer of the interests in the assets held by F1 to LLP.

Pursuant to a power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. A copy of this ruling letter should be attached to your Form 5471. This ruling is directed to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Sincerely,

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Phyllis Marcus
Branch Chief
Associate Chief Counsel
(International, Branch 2)