§ 1.672(f)–2 Certain foreign corporations.
(a) Application of general rule. Subject to the provisions of paragraph (b) of this section, if the owner of any portion of a trust upon application of the grantor trust rules without regard to section 672(f) is a controlled foreign corporation (as defined in section 957), a passive foreign investment company (as defined in section 1297), or a foreign personal holding company (as defined in section 1296), the corporation will be treated as a domestic corporation for purposes of applying the rules of § 1.672(f)–1.
(b) Gratuitous transfers to United States persons—(1) Transfer from trust to which corporation made a gratuitous transfer. If a trust (or portion of a trust) to which a controlled foreign corporation, passive foreign investment company, or foreign personal holding company has made a gratuitous transfer (within the meaning of § 1.672(f)–4(c)), relating to gratuitous transfers from trusts (or portions of trusts) to which a partnership or foreign corporation has made a gratuitous transfer.
(2) Transfer from trust over which corporation has a section 678 power. If a trust (or portion of a trust) that a controlled foreign corporation, passive foreign investment company, or foreign personal holding company is treated as owning under section 678 makes a gratuitous transfer to a United States person, the controlled foreign corporation, passive foreign investment company, or foreign personal holding company, as the case may be, is treated as a foreign corporation that had made a gratuitous transfer to the trust (or portion of a trust) and the rules of § 1.672(f)–4(a) apply.
(c) Special rules for passive foreign investment companies—(1) Application of section 1297. For purposes of determining whether a foreign corporation is a passive foreign investment company as defined in section 1297, the grantor trust rules apply as if section 672(f) had not come into effect.
(2) References to renumbered Internal Revenue Code section. For taxable years of shareholders beginning on or before December 31, 1997, and taxable years of passive foreign investment companies ending with or within such taxable years of the shareholders, all references in this § 1.672(f)–2 to section 1297 are deemed to be references to section 1296.
(d) Examples. The following examples illustrate the rules of this section. In each example, FT is an irrevocable foreign trust, and CFC is a controlled foreign corporation. The examples are as follows:
Example 1. Application of general rule. CFC creates and funds FT. CFC is the grantor of FT within the meaning of § 1.672(f)–1. Thus, § 1.672(f)–1 does not prevent CFC from being treated as the owner of FT under section 673.
Example 2. Distribution from trust to which CFC made gratuitous transfer. A, a non-resident alien, owns 40 percent of the stock of CFC. A’s brother B, a resident alien, owns the other 60 percent of the stock of CFC. CFC makes a gratuitous transfer to FT. FT makes a gratuitous transfer to A’s daughter, C, who is a resident alien. Under paragraph (b)(1) of this section, CFC will be treated as a foreign corporation for purposes of § 1.672(f)–4(c). For further guidance, see § 1.672(f)–4(e) Example 2 through Example 4.
§ 1.672(f)-3  Exceptions to general rule.

(a) Certain revocable trusts—(1) In general. Subject to the provisions of paragraph (a)(2) of this section, the general rule of § 1.672(f)-1 does not apply to any portion of a trust for a taxable year of the trust if the power to revest absolutely in the grantor has such power for each day of the first or last taxable year, as the case may be.

(2) 183-day rule. For purposes of paragraph (a)(1) of this section, the grantor is treated as having a power to revest for a taxable year of the trust only if the grantor has such power for a total of 183 or more days during the taxable year of the trust. If the first or last taxable year of the trust (including the year of the grantor's death) is less than 183 days, the grantor is treated as having a power to revest for purposes of paragraph (a)(1) of this section if the grantor has such power for each day of the first or last taxable year, as the case may be.

(3) Grandfather rule for certain revocable trusts in existence on September 19, 1995. Subject to the rules of paragraph (d) of this section (relating to separate accounting for gratuitous transfers to the trust after September 19, 1995), the general rule of § 1.672(f)-1 does not apply to any portion of a trust that was treated as owned by the grantor under section 676 on September 19, 1995, as long as the trust would continue to be so treated thereafter. However, the preceding sentence does not apply to any portion of the trust attributable to gratuitous transfers to the trust after September 19, 1995.

(4) Examples. The following examples illustrate the rules of this paragraph (a):

Example 1. Grantor is owner. FP1, a foreign person, creates and funds a revocable trust, T, for the benefit of FP1’s children, who are resident aliens. The trustee is a foreign bank, FB, that is owned and controlled by FP1 and FP2, who is FP1’s brother. The power to revoke T and revest absolutely in FP1 title to the trust property is exercisable by FP1, but only with the approval or consent of FB. The trust instrument contains no standard that FB must apply in determining whether to approve or consent to the revocation of T. There are no facts that would suggest that FB is not subservient to FP1. Therefore, the exception in paragraph (a)(1) of this section is applicable.

Example 2. Death of grantor. Assume the same facts as in Example 1, except that FP1 dies. After FP1’s death, FP2 has the power to withdraw the assets of T, but only with the approval of FB. There are no facts that would suggest that FB is not subservient to FP2. However, the exception in paragraph (a)(1) of this section is no longer applicable, because FP2 is not a grantor of T within the meaning of § 1.671-2(e).

Example 3. Trustee is not related or subordinate party. Assume the same facts as in Example 1, except that neither FP1 nor any member of FP1’s family has any substantial ownership interest or other connection with FB. After FP1’s death, FP1 can replace FB with a related or subordinate party if FB refuses to approve or consent to FP1’s decision to revest the trust property in himself; FB is not a related or subordinate party.