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or after April 4, 2016, but only if the inversion transaction was completed on or after September 22, 2014. Paragraph (a)(4)(ii) of this section applies to obligations acquired on or after April 4, 2016. For inversion transactions completed on or after September 22, 2014, however, taxpayers may elect to apply paragraph (a)(4)(ii) of this section to an obligation acquired before April 4, 2016. For purposes of paragraph (a)(4)(i) of this section and this paragraph (i)(1), a deemed exchange of an obligation or stock pursuant to section 1001 constitutes an acquisition of the obligation or stock. For purposes of paragraph (c)(5) of this section and this paragraph (i)(1), a pledgor or guarantor or deemed pledgor or guarantor is treated as entering into a pledge or guarantee when there is a significant modification, within the meaning of §1.1001–3(e), of an obligation with respect to which it is a pledgor or guarantor or is treated as a pledgor or guarantor.

(2) Paragraphs (d)(2)(i) and (ii) of this section are effective June 14, 1988, with respect to investments made on or after June 14, 1988.

(3) Paragraph (d)(2)(iii) of this section applies to obligations acquired on or after April 4, 2016, but only if the inversion transaction was completed on or after September 22, 2014. For inversion transactions completed on or after September 22, 2014, however, taxpayers may elect to apply paragraph (d)(2)(iii) of this section to an obligation acquired on or after September 22, 2014, and before *April 4, 2016*. For purposes of paragraph (d)(2)(iii) of this section and this paragraph (i)(3), a significant modification, within the meaning of §1.1001–3(e), of an obligation on or after April 4, 2016, constitutes an acquisition of an obligation on or after April 4, 2016.

(4) Paragraph (d)(2)(iv) of this section applies to obligations held on or after September 16, 1988.

(5) Paragraph (d)(2)(v) of this section applies to the first three taxable years of a foreign corporation ending after October 3, 2008, other than taxable years of a foreign corporation beginning on or after January 1, 2011, as well as the fourth taxable year of a foreign corporation, if any, when the foreign corporation's third taxable year (including any short taxable year) ended after October 3, 2008, and on or before December 31, 2009.

(j) *Expiration date.* The applicability of paragraphs (a)(4), (c)(5), and (d)(2) of this section expires on or before April 4, 2019.

[T.D. 8209, 53 FR 22171, June 14, 1988, as amended at T.D. 9406, 73 FR 38117, July 3, 2008; T.D. 9525, 76 FR 26181, May 6, 2011; T.D. 9589, 77 FR 27614, May 11, 2012; T.D. 9719, 80 FR 26442, May 8, 2015; T.D. 9761, 81 FR 20886, Apr. 8, 2016; T.D. 9761, 81 FR 46833, July 19, 2016]

§1.956–3 Certain trade or service receivables acquired from United States persons.

(a) *In general.* For purposes of section 956(a) and §1.956–1, the term ''United States property'' also includes any trade or service receivable if the trade or service receivable is acquired (directly or indirectly) from a related person who is a United States person (as defined in section 7701(a)(30)) (a *related United States person*) and the obligor under the receivable is a United States person. A trade or service receivable described in this paragraph is considered to be United States property notwithstanding the exceptions (other than subparagraph (H)) contained in section 956(c)(2). The terms ''trade or service receivable'' and ''related person'' have the respective meanings given to the terms by section 864(d) and the regulations thereunder, including §1.864–8T(b). For purposes of this section, the exception in §1.956–2T(d)(2)(ii) does not apply to trade or service receivables described in this paragraph.

(b) *Acquisition of a trade or service receivable*—(1) *General rule.* The rules of §1.864–8T(c)(1) apply to determine whether a controlled foreign corporation has acquired a trade or service receivable.

(2) *Indirect acquisitions*—(i) *Acquisition through unrelated person.* A trade or service receivable is considered acquired from a related person when it is acquired from an unrelated person who acquired (directly or indirectly) the receivable from a person who is a related person to the acquiring person.

(ii) *Acquisition by nominee, passthrough entity, or related foreign corporation.* A controlled foreign corporation

is treated as holding a trade or service receivable that is held by a nominee on its behalf, or by a simple trust or other pass-through entity (other than a partnership) to the extent of its direct or indirect ownership or beneficial interest in such simple trust or other pass-through entity. See §§1.956–1(b) and 1.956–4(b) for rules that may treat a controlled foreign corporation as indirectly holding a trade or service receivable held by a foreign corporation or partnership. A controlled foreign corporation that is treated as holding a trade or service receivable held by another person (the *direct holder*) (or that would be treated as holding the receivable if the receivable were United States property or would be United States property if held directly by the controlled foreign corporation) is considered to have acquired the receivable from the person from whom the direct holder acquired the receivable. This paragraph (b)(2)(ii) does not limit the application of paragraph (b)(2)(iii) of this section. The following examples illustrate the application of this paragraph (b)(2)(ii):

Example 1. (i) *Facts.* A domestic corporation, P, wholly owns a controlled foreign corporation, FS, with substantial earnings and profits. FS contributes $200x of cash to a partnership, PRS, in exchange for an 80% partnership interest. An unrelated foreign person contributes real estate located in a foreign country with a fair market value of $50x to PRS for the remaining 20% partnership interest. There are no special allocations in the PRS partnership agreement. PRS uses the $200x of cash received from FS to purchase trade receivables from P. The obligors with respect to the trade receivables are United States persons that are not related to any partner in PRS. The liquidation value percentage, as determined under §1.956–4(b), for FS with respect to PRS is 80%. A principal purpose of funding PRS (through FS's cash contribution) is to avoid the application of section 956 with respect to FS.

(ii) *Result.* Under §1.956–4(b)(1), FS is treated as holding 80% of the trade receivables acquired by PRS from P, with a basis equal to $160x (80% × $200x, PRS's basis in the trade receivables). However, because FS controls PRS and a principal purpose of FS funding PRS was to avoid the application of section 956 with respect to FS, under §1.956–1(b), if the trade receivables would be United States property if held directly by FS, FS additionally would be treated as holding the trade receivables to the extent that they exceed the amount of the receivables it holds under §1.956–4(b), which is $40x ($200x − $160x). Accordingly, under this paragraph (b)(2)(ii), FS is treated as having acquired from P, a related United States person, the trade receivables that it is treated as holding with a basis equal to $200x ($160x + $40x). Thus, FS is treated as holding United States property with a basis of $200x under paragraph (a) of this section.

Example 2. (i) *Facts.* A domestic corporation, P, wholly owns a controlled foreign corporation, FS1, that has earnings and profits of at least $300x. FS1 organizes a foreign corporation, FS2, with a $200x cash contribution. FS2 uses the cash contribution to purchase trade receivables from P. The obligors with respect to the trade receivables are unrelated United States persons. A principal purpose of funding FS2 (through FS1's cash contribution) is to avoid the application of section 956 with respect to FS1.

(ii) *Result.* Under §1.956–1(b), if the trade receivables held by FS2 were United States property, FS1 would be treated as holding the trade receivables held by FS2 because FS1 controls FS2 and a principal purpose of FS1 funding FS2 was to avoid the application of section 956 with respect to FS1. Accordingly, under this paragraph (b)(2)(ii), FS1 is treated as having acquired from P, a related United States person, the trade receivables that it would be treated as holding with a basis equal to $200x. Thus, FS1 is treated as holding United States property with a basis of $200x under paragraph (a) of this section.

(iii) *Swap or pooling arrangements.* A trade or service receivable of a United States person is considered to be a trade or service receivable acquired from a related United States person and subject to the rules of this section when it is acquired in accordance with an arrangement that involves two or more groups of related persons, if the groups are unrelated to each other and the effect of the arrangement is that one or more persons in each group acquire (directly or indirectly) trade or service receivables from one or more unrelated United States persons who are also parties to the arrangement in exchange for reciprocal purchases of receivables from related United States persons. The following example illustrates the application of this paragraph (b)(2)(iii):

Example. (i) *Facts.* Controlled foreign corporations A, B, C, and D are wholly-owned subsidiaries of domestic corporations M, N, O, and P, respectively. M, N, O, and P are not related persons. According to a prearranged

plan, A, B, C, and D each acquire trade or service receivables from M, N, O, and/or P. The obligors under some or all of the receivables acquired by each of A, B, C, and D are United States persons.

(ii) *Result.* The effect of the prearranged plan is that each of A, B, C, and D acquires trade or service receivables of United States persons from one or more unrelated United States persons who are also parties to the arrangement, in exchange for reciprocal purchases of receivables from a related United States person. Accordingly, each of A, B, C, and D is treated as holding a trade or service receivable acquired from a related United States person and is subject to the rules of this section. As a result, each of A, B, C, and D is treated as holding an amount of United States property equal to its adjusted basis in the receivables acquired pursuant to the arrangement with respect to which the obligors are United States persons.

(iv) *Financing arrangements.* If a controlled foreign corporation participates (directly or indirectly) in a lending transaction that results in a loan to a United States person who purchases property described in section 1221(a)(1) (*inventory property*) or services from a related United States person, or to any person who purchases from a related United States person trade or service receivables under which the obligor is a United States person, or to a person who is a related person with respect to the purchaser, and if the loan would not have been made or maintained on the same terms but for the corresponding purchase, then the controlled foreign corporation is considered to have indirectly acquired a trade or service receivable described in paragraph (a) of this section. For purposes of this paragraph (b)(2)(iv), it is immaterial that the sums lent are not, in fact, the sums used to finance the purchase of the inventory property or services or trade or service receivables from a related United States person. The amount to be taken into account with respect to the United States property treated as held by a controlled foreign corporation as a result of the application of this paragraph (b)(2)(iv) is the lesser of the amount lent pursuant to a lending transaction described in this paragraph (b)(2)(iv) and the purchase price of the inventory property, services, or trade or service receivables. The following examples illustrate the application of this paragraph (b)(2)(iv):

Example 1. (i) *Facts.* P, a domestic corporation, owns all of the outstanding stock of FS1, a controlled foreign corporation. P sells inventory property for $200x to X, an unrelated United States person. FS1 makes a $100x short-term loan to X, which loan would not have been made or maintained on the same terms but for X's purchase of P's inventory property.

(ii) *Result.* FS1 directly participates in a lending transaction described in this paragraph (b)(2)(iv). Thus, FS1 is considered to have acquired a trade or service receivable described in paragraph (a) of this section. That is, FS1 is considered to have acquired a trade or service receivable of a United States person from a related United States person. As a result, FS1 is treated as holding United States property in the amount of $100x.

Example 2. (i) *Facts.* The facts are the same as in *Example 1* of this paragraph (b)(2)(iv), except that instead of loaning money to X directly, FS1 deposits $300x with an unrelated financial institution that loans $200x to X in order for X to purchase P's inventory property. The loan would not have been made or maintained on the same terms but for the corresponding deposit.

(ii) *Result.* FS1 is considered to have acquired a trade or service receivable described in paragraph (a) of this section because FS1 indirectly participates in a lending transaction described in this paragraph (b)(2)(iv). See Rev. Rul. 87–89, 1987–2 CB 195. That is, FS1 is considered to have acquired a trade or service receivable of a United States person from a related United States person. Thus, FS1 is treated as holding United States property in the amount of $200x.

Example 3. (i) *Facts.* P, a domestic corporation, owns all of the outstanding stock of FS1, a controlled foreign corporation. FS1 makes a $300x loan to U, an unrelated foreign corporation, in connection with U's purchase from P of receivables from the sale of inventory property by P to United States obligors for $200x.

(ii) *Result.* FS1 is considered to have acquired a trade or service receivable described in paragraph (a) of this section because FS1 directly participates in a lending transaction described in this paragraph (b)(2)(iv). That is, FS1 is considered to have acquired a trade or service receivable of a United States person from a related United States person. Thus, FS1 is treated as holding United States property in the amount of $200x.

(c) *Substitution of obligor.* For purposes of this section, the substitution of another person for a United States obligor is disregarded, unless it can be demonstrated by the parties to the transaction that the primary purpose

for the arrangement was not the avoidance of section 956. The following example illustrates the application of this paragraph (c):

Example. (i) *Facts.* P, a domestic corporation, owns all of the outstanding stock of FS1, a controlled foreign corporation with substantial accumulated earnings and profits. P sells inventory property to X, a domestic corporation unrelated to P. To pay for the inventory property, X arranges for a foreign financing entity to issue a note to P. P then sells the note to FS1. P and X cannot demonstrate that the primary purpose for X's assignment of the payment obligation to the foreign financing entity was not the avoidance of section 956.

(ii) *Result.* The substitution of the foreign financing entity for X is disregarded, and FS1 is treated as holding an obligation of a United States person acquired from a related United States person. Thus, FS1 is treated as holding United States property in the amount of the purchase price of the note.

(d) *Effective/applicability date.* (1) Except as provided in paragraph (d)(2) of this section, this section applies to trade or service receivables acquired (directly or indirectly) after March 1, 1984.

(2) Paragraph (b)(2)(ii) of this section applies to taxable years of controlled foreign corporations ending on or after November 3, 2016, and taxable years of United States shareholders in which or with which such taxable years end, with respect to trade or service receivables acquired on or after September 1, 2015. For purposes of this paragraph (d), a significant modification, within the meaning of §1.1001–3(e), of a trade or service receivable on or after September 1, 2015, constitutes an acquisition of the trade or service receivable on or after that date.

[T.D. 9792, 81 FR 76508, Nov. 3, 2016]

§ 1.956–4 Certain rules applicable to partnerships.

(a) *Overview.* This section provides rules concerning the application of section 956 to certain obligations of and property held by a partnership. Paragraph (b) of this section provides rules concerning United States property held indirectly by a controlled foreign corporation through a partnership. Paragraph (c) of this section provides rules that generally treat obligations of a foreign partnership as obligations of the partners in the foreign partnership, as well as a special rule that treats a partner that is a United States person as owing additional amounts of a partnership obligation in certain circumstances. Paragraph (d) of this section sets forth a rule concerning the application of the indirect pledge or guarantee rule to obligations of partnerships. Paragraph (e) of this section provides that obligations of a domestic partnership are obligations of a United States person. Paragraph (f) of this section provides effective and applicability dates. See §§1.956–1(b) and 1.956–2(c) for additional rules applicable to partnerships.

(b) *Property held indirectly through a partnership*—(1) *General rule.* For purposes of section 956, a partner in a partnership is treated as holding its attributable share of any property held by the partnership (including an obligation that the partnership is treated as holding as a result of the application of §1.956–2(c)). A partner's attributable share of partnership property is determined under the rules set forth in paragraph (b)(2) of this section. An upper-tier partnership's attributable share of the property of a lower-tier partnership is treated as property of the upper-tier partnership for purposes of applying this paragraph (b)(1) to the partners of the upper-tier partnership. For purposes of section 956, a partner's adjusted basis in the property of the partnership equals the partner's attributable share of the partnership's adjusted basis in the property, as determined under the rules set forth in paragraph (b)(2) of this section, taking into account any adjustments to basis under section 743(b) (with respect to the partner) or section 734(b) or any similar adjustments to basis. The rules in §1.956–1(e)(2) apply to determine the amount of an obligation treated as held by a partnership as a result of the application of §1.956–2(c). See §1.956–1(b) for special rules that may treat a controlled foreign corporation as holding a greater amount of United States property held by a partnership than the amount determined under this section.

(2) *Methodology*—(i) *Liquidation value percentage*—(A) *Calculation.* Except as otherwise provided in paragraph (b)(2)(ii) of this section, for purposes of