described in section 959(c)(2) are reclassified as earnings and profits described in section 959(c)(1).

(iii) Example 3. (A) Facts. (1) USP, a domestic corporation, owns all of the single class of stock of CFC1, and has held such stock for five years. CFC1 has held 70% of the single class of stock of CFC2 for three years. The other 30% of the CFC2 stock has been held by a foreign individual unrelated to USP or CFC1 since CFC2’s formation. All of the stock of each of CFC1 and CFC2 is treated as equity for U.S. income tax purposes and under the laws of the jurisdiction in which each respective corporation is organized and liable to tax as a resident. CFC2 has a calendar taxable year. On December 1, Year 1, CFC1 acquires the remaining 30% of the stock of CFC2 for cash. On June 30, Year 2, CFC1 sells to a third party the 30% of CFC2 stock acquired in Year 1 at no gain. CFC2 made no distributions during Year 1.

(B) The functional currency of CFC1 and CFC2 is the U.S. dollar. CFC2 has $120x of undistributed earnings as defined in section 245A(c)(2), all of which constitute undistributed foreign earnings. Neither CFC1 nor CFC2 would receive a deduction or other tax benefit with respect to any income, war profits, or excess profits taxes on a distribution. None of the earnings and profits of CFC2 are described in section 959(c)(1) or (2) or are earnings and profits attributable to income excluded from subpart F income under section 952(b). CFC2’s applicable earnings (as defined in section 959(c)(1)(A)(i)) are $420x. CFC2 has held an obligation of USP with an adjusted basis of $100x on every day of Year 1 that was acquired while USP owned all of the stock of CFC1 and CFC1 held 70% of the single class of stock of CFC2.

(B) Analysis. Because USP indirectly owns (within the meaning of section 958(a)) all of the stock of CFC2 at the end of Year 1, USP’s aggregate tentative section 956 amount with respect to CFC2 for Year 1 is $100x, the lesser of USP’s pro rata share of the average amounts of United States property held by CFC2 ($100x) and its pro rata share of CFC2’s applicable earnings ($120x). Under paragraph (a)(2)(i) of this section, USP’s section 956 amount with respect to CFC2 for Year 1 is its aggregate tentative section 956 amount with respect to CFC2 reduced by the deduction under section 245A that USP would be allowed if USP received an amount equal to its aggregate tentative section 956 amount as a distribution with respect to the CFC2 stock that USP owns indirectly within the meaning of section 958(a)(2). For purposes of determining the consequences of this hypothetical distribution, under paragraph (a)(2)(ii)(A)(1) of this section, USP is treated as owning the CFC2 stock directly. In addition, under paragraph (a)(2)(ii)(A)(4) of this section, the holding period requirement of section 246(c) is applied by reference to the period during which USP owned (within the meaning of section 958(a)) the stock of CFC2. Therefore, with respect to the hypothetical distribution from CFC2 to USP, USP would satisfy the holding period requirement under section 246(c) with respect to the 70% of the CFC2 stock that USP indirectly owned for three years through CFC1, but not with respect to the 30% of the CFC2 stock that USP indirectly owned through CFC1 for a period of less than 365 days. Accordingly, USP’s section 956 amount with respect to CFC2 for Year 1 is its aggregate tentative section 956 amount ($100x) reduced by the amount of the deduction that USP would have been allowed under section 245A with respect to the hypothetical distribution ($70x).

* * * * *

(g) * * *

(4) Paragraphs (a)(2) and (3) of this section apply to taxable years of controlled foreign corporations beginning on or after the date of publication of the Treasury decision adopting paragraphs (a)(2) and (3) of this section as final regulations in the Federal Register, and to taxable years of a United States shareholder in which or with which such taxable years of the controlled foreign corporation end.

(5) Paragraph (a)(6) of this section applies to property acquired in exchanges occurring on or after June 24, 2011.

Kirsten Wielobob,
Deputy Commissioner for Services and Enforcement.

DEPARTMENT OF DEFENSE
Office of the Secretary
32 CFR Part 111
[Docket ID: DOD–2016–OS–0116]
RIN 0790–AI99
Transitional Compensation (TC) for Abused Dependents
AGENCY: Office of the Under Secretary of Defense for Personnel and Readiness, DoD.
ACTION: Proposed rule.
SUMMARY: Transitional compensation is one of the many resources available to victims of domestic abuse. The Transitional Compensation for Abused Dependents program is a congressionally-authorized program which provides temporary monetary payments and military benefits to dependents of Service members, when the member has been separated from the military due to a dependent-abuse or child abuse offense. If adopted as final, this rulemaking would establish requirements and describes authorized benefits for an abused spouse and/or abused children affected by the separation or forfeiture of pay and allowances of a military Service member.
DATES: Comments must be received by January 4, 2019.
ADDRESSES: You may submit comments, identified by docket number and/or RIN number and title, by any of the following methods: