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[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9792]

RIN 1545-BJ48

United States Property Held by Controlled Foreign Corporations in Transactions Involving Partnerships; Rents and Royalties Derived in the Active Conduct of a Trade or Business; Correction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correcting amendment.

SUMMARY: This document contains corrections to the final regulations (TD 9792) that were published in the **Federal Register** on Thursday, November 3, 2016 (81 FR 76497). The final regulations provide rules regarding the treatment as United States property of property held by a controlled foreign corporation (CFC) in connection with certain transactions involving partnerships.

DATES: This correction is effective **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]** and is applicable on or after November 3, 2016.

FOR FURTHER INFORMATION CONTACT: Rose E. Jenkins, at (202) 317-6934 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

## **Background**

The final regulations (TD 9792) that are the subject of these corrections are under sections 954 and 956 of the Internal Revenue Code.

## **Need for Correction**

As published, the final regulations (TD 9792) contain errors that may prove to be misleading and are in need of clarification.

## **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

## **Amendments to the Regulations**

Accordingly, 26 CFR Part 1 is corrected by making the following correcting amendments:

### **PART 1 - INCOME TAXES**

**Paragraph 1.** The authority citation for part 1 is amended by deleting the entry for §1.956-3T to read in part as follows:

Authority: 26 U.S.C. 7805 \* \* \*

\* \* \* \* \*

§1.954-2 [Amended]

**Par. 2.** Section 1.954-2 is amended by removing paragraph (j).

**Par. 3.** Section 1.956-1T is amended by revising the section heading and the paragraph headings for paragraphs (a)(5) and (f) to read as follows:

§1.956-1T Shareholder's pro rata share of the average of the amounts of United States property held by a controlled foreign corporation (temporary).

(a) \* \* \*

(5) Exclusion for certain recourse obligations. \* \* \*

\* \* \* \* \*

(f) Effective/applicability date. \* \* \*

\* \* \* \* \*

**Par. 4.** Section 1.956-4 is amended by revising paragraphs (b)(2)(ii), (b)(3) introductory text, and (c)(3)(i) introductory text, and in paragraph (c)(4), Example 3, by removing “U.S.C.” each place that it appears and adding in its place, “USP2”.

The revisions read as follows:

§1.956-4 Certain rules applicable to partnerships.

\* \* \* \* \*

(b) \* \* \*

(2) \* \* \*

(ii) Special allocations. For purposes of paragraph (b)(1) of this section, if a partnership agreement provides for the allocation of book income (or, where appropriate, book gain) from a subset of the property of the partnership to a partner other than in accordance with the partner’s liquidation value percentage in a particular taxable year (a special allocation), then the partner’s attributable share of that property is determined solely by reference to the partner’s special allocation with respect to the property, provided the special allocation will be respected for federal income tax purposes under section 704(b) and the regulations thereunder and does not have a principal purpose of avoiding the purposes of section 956.

(3) Examples. The following examples illustrate the rules of this paragraph (b): \* \* \*

\* \* \* \* \*

(c) \* \* \*

(3) \* \* \*

(i) General rule. For purposes of determining a partner's share of a foreign partnership's obligation under section 956, if the foreign partnership distributes an amount of money or property to a partner that is related to a controlled foreign corporation within the meaning of section 954(d)(3) and whose obligation would be United States property if held (or if treated as held) by the controlled foreign corporation, and the foreign partnership would not have made the distribution but for a funding of the partnership through an obligation held (or treated as held) by the controlled foreign corporation, notwithstanding §1.956-1(e), the partner's share of the partnership obligation is the greater of--

\* \* \* \* \*

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