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From: [REDACTED]

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To: [REDACTED]

Cc: [REDACTED]

Bcc:

Subject: Section 956 - Treatment of CFC Obligations to Related US Persons

You asked whether, in calculating the amount of United States property held by a CFC under section 956(a), the amount of an obligation of a United States person held by the CFC (as determined under section 956(c)(1)(C)) may be reduced by obligations of the CFC held by a different United States person if that person is a member of the same U.S. consolidated group under section 1501. As we discussed, obligations of the CFC do not reduce the amount of an obligation held by the CFC on each quarterly measurement date. This is the case even if the CFC obligation is held by the same U.S. person that borrowed under the U.S. obligation held by the CFC. If, however, settling journal entries are made to reflect actual extinguishment (or reduction) of the amount of the obligation held by (owed to) the CFC (e.g., with corresponding journal entries increasing the amount owed by the United States person to one of its wholly-owned U.S. subsidiaries and reducing the amount owed to the CFC by that same subsidiary) before the quarterly measurement date, then such reduction or extinguishment is taken into account. See Gulf Oil Corp. v. Commissioner, 87 T.C. 548 (1986). In contrast, journal entries that do not in fact cause a reduction or extinguishment of the U.S. person's obligation to the CFC cannot reduce the CFC's investment in U.S. property for purposes of section 956(a). The accounting system you described wherein each affiliate used a single account that simply kept a running total of the aggregate amount due to, or from, all affiliates, with no specific identification of the amounts due to, or from, any particular affiliate or the repayment of any amounts to, or from, a particular affiliate, did not reduce the liability of the U.S. person to the CFC by the amount of the obligations of the CFC. Accordingly, the accounting system that you described is distinguishable from the cash management accounting system described in Gulf Oil.