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June 30, 2006

Mr. Eric Solomon
Acting Deputy Assistant Secretary (Tax Policy)
Department of the Treasury
Room 3112 MT
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Mark W. Everson
Commissioner
Internal Revenue Service
Room 3000 IR
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Re: Application of Section 956 to Partnership Transactions

Dear Acting Deputy Assistant Secretary Solomon and Commissioner Everson:

I am pleased to enclose New York State Bar Association Tax Section Report No. 1114, addressing the application of Section 956 to partnership transactions.

The report responds to the request for comments that was included in the preamble to the recently proposed regulations under Section 954(i). More specifically, the preamble requested comments regarding the application of Section 956 in the case of a loan by a controlled foreign corporation ("CFC") to a foreign partnership in which one or more partners are U.S. shareholders of the CFC.

As discussed in the report, we believe that a loan by a CFC to a related foreign partnership should generally not be treated as an investment in U.S. property for Section 956 purposes (irrespective of whether the partners in the foreign partnership are U.S. or foreign

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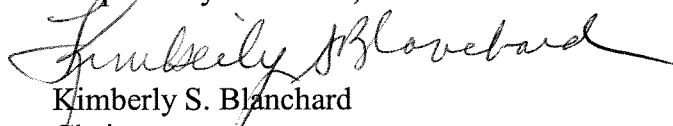
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persons) if the loan proceeds are not invested in U.S. property or otherwise distributed to any U.S. partners in the partnership. The report recommends, however, that an anti-abuse rule be enacted under which a loan by a CFC to a foreign partnership would be treated as an investment in U.S. property for Section 956 purposes if (i) the loan proceeds are loaned or distributed to a U.S. partner of the foreign partnership that is a "U.S. shareholder" of the CFC and (ii) one of the principal purposes for creating, organizing or funding the foreign partnership is to avoid the application of Section 956 with respect to the CFC.

The report also addresses the Section 956 treatment of (i) a loan by a CFC to a U.S. partnership and (ii) a loan by a CFC to a foreign entity that is classified as a branch of a U.S. person for U.S. federal income tax purposes. Finally, the report recommends strengthening the existing anti-abuse rule in Treasury Regulations Section 1.956-1T.

We appreciate your consideration of our recommendations and comments. We would be pleased to discuss these matters with you further or provide any other assistance that you would find helpful.

Respectfully submitted,



Kimberly S. Blanchard
Chair

Enclosure

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