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Department of the Treasury
Washington, DC 20224

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Person To Contact:
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Telephone Number:

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PLR-110178-25

Date:
September 16, 2025

LEGEND

Country A	=	
Country B	=	
Country C	=	
Date	=	
FParent	=	
FSub 1	=	
FSub 2	=	
FSub 3	=	
FSub 4	=	
FSub 5	=	
FSub 6	=	
FSub 7	=	
FSub 8	=	
FSub 9	=	
FSub 10	=	
FSub 11	=	
Sub 1	=	
Sub 2	=	
Subject Entities	=	FSub 5, FSub 6, FSub 7, FSub 8, FSub 9, FSub 10, FSub 11, Sub 2
X	=	
Y	=	

Dear :

This is in response to your letter on Date, as supplemented by additional information statements, requesting a ruling that FSub 6 is not classified as an association taxable as a corporation pursuant to Treas. Reg. § 301.7701-2(b)(6).

FACTS

FSub 6 represents that the facts are as follows:

FParent is a private limited company organized under Country A law and is classified as an association taxable as a corporation for U.S. federal tax purposes. FParent is a global investment company that is directly wholly owned by Country A. FParent is a "controlled entity" of Country A within the meaning of Temp. Treas. Reg. § 1.892-2T(a)(3). FParent manages a diversified portfolio of investments across various sectors including financial services, telecommunications, media and technology, transportation and industrials, consumer and real estate, life sciences and agribusiness, and energy and resources.

FParent directly wholly owns FSub 1, which in turn, directly wholly owns FSub 2. FSub 2 directly wholly owns FSub 3 and FSub 4. Each of FSub 1, FSub 2, FSub 3, and FSub 4 is a private limited company organized under Country A law and is classified as an association taxable as a corporation for U.S. federal tax purposes. Each of FSub 1, FSub 2, FSub 3, and FSub 4 is also a "controlled entity" of Country A within the meaning of Temp. Treas. Reg. § 1.892-2T(a)(3).

FSub 2, FSub 3, and FSub 4 (collectively, the "Section 892 Investors") together directly and indirectly wholly own all of the interests[1] in the entities that collectively constitute a newly formed global credit investment structure (the "Fund"), which makes primary and secondary acquisitions of both U.S. and non-U.S. loans, debt instruments, and minority equity interests in borrowers.

The Fund comprises a number of entities and is not treated as a single entity for U.S. federal tax purposes. The Fund entities include FSub 5, FSub 6, FSub 7, FSub 8, FSub 9, FSub 10, FSub 11, Sub 1, and Sub 2. Certain Fund entities, including FSub 10, FSub 11, and Sub 2, may receive additional capital from third-party investors subject to commercial negotiation and regulatory approvals. Each of the Fund entities apart from Sub 1 (the "Subject Entities") has requested a letter ruling that it is not classified as a corporation pursuant to Treas. Reg. § 301.7701-2(b)(6).

[1] FSub 6 represents in the letter ruling request that all ownership percentages described in the ruling request represent actual interests in the relevant entity's items of income, gain, loss, deduction, credit, or capital, and the beneficial interest in the receipts, investments, or other property of the relevant entity during operation or upon liquidation.

Each of the Subject Entities of the Fund has two owners and was formed to enable the Fund to carry on investment activities and to divide the profits and losses therefrom. All the Subject Entities have elected to be classified as partnerships for U.S. federal tax purposes effective on their date of formation to permit the Section 892 Investors to claim the exemption under section 892(a)(1) with respect to their pro rata shares of the U.S. source dividend and/or interest income received through the Subject Entities. The Section 892 Investors cannot claim their section 892 benefits on the income if one or more of the Subject Entities were classified as associations taxable as corporations for U.S. federal tax purposes.

FSub 6 further represents that the ownership structure is as follows:

FSub 2 directly owns X percent and FSub 3 directly owns Y percent of the interests in FSub 5. Each of FSub 2 and FSub 3 will certify to FSub 5 on a Form W-8EXP, Certificate of Foreign Government or Other Foreign Organization for United States Tax Withholding and Reporting, that it is classified as a "controlled entity" of Country A.

FSub 5 is a private limited company organized under Country A law and has elected to be classified as a partnership for U.S. federal tax purposes effective on its date of formation.

FSub 5 directly wholly owns Sub 1, a U.S. limited liability company that has elected to be classified as an association taxable as a corporation for U.S. federal tax purposes effective on its date of formation.

FSub 5 directly owns X percent of the interests in FSub 6 as its sole limited partner. Sub 1 directly owns Y percent of the interests in FSub 6 and acts as its general partner. FSub 6 is a limited partnership organized under Country B law and has elected to be classified as a partnership for U.S. federal tax purposes effective on its date of formation.

LAW AND ANALYSIS

Treas. Reg. § 301.7701-2(b)(6) provides that, for U.S. federal tax purposes, the term corporation includes a business entity wholly owned by a U.S. state or any political subdivision thereof, or a business entity wholly owned by a foreign government, or any other entity described in Temp. Treas. Reg. § 1.892-2T.

Before the promulgation of Treas. Reg. § 301.7701-2(b)(6) in 1996, the Treasury Department and the IRS were concerned that organizations wholly owned by a U.S. state that were not integral parts of that U.S. state were claiming integral part status and thereby circumventing taxation of income not properly excluded by section 115.[2]

[2] Simplification of Entity Classification Rules, 61 Fed. Reg. 21989, 21991 (May 13, 1996). See Treas. Reg. § 301.7701-1(a)(3), which provides that an organization wholly owned by a U.S. state is not

Section 115(1) provides that gross income does not include income derived from the exercise of any essential governmental function and accruing to a U.S. state or any political subdivision thereof. To address that concern, Treas. Reg. § 301.7701-2(b)(6) requires an organization that is wholly owned by a U.S. state to be recognized as an association taxable as a corporation for U.S. federal tax purposes. The income of such an organization is exempt from U.S. federal income tax only to the extent it can, pursuant to section 115, demonstrate that such income is derived from the exercise of any essential governmental function and accrues to a U.S. state or any political subdivision thereof.

Similar concerns arose about foreign governments taking advantage of the favorable treatment afforded to integral parts for purposes of section 892.[3] Temp. Treas. Reg. § 1.892-2T(a) defines the term foreign government to mean only the integral parts[4] or controlled entities[5] of a foreign sovereign. Both an integral part and a controlled entity of a foreign sovereign are eligible for the section 892 exemption. An integral part of a foreign sovereign, however, does not lose its ability to claim the exemption with respect to income not derived from commercial activities even if the integral part engages in commercial activities (within the meaning of Temp. Treas. Reg. § 1.892-4T).[6] In contrast, if a controlled entity of a foreign sovereign conducts (or is treated as conducting) commercial activities, it loses the exemption under section 892 with respect to all of its income, including any income not derived from commercial activities.[7] The exemption does not apply to income derived from the conduct of any commercial activity (whether within or outside the United States), received by or received (directly or indirectly) from a controlled commercial entity (as defined in section 892(a)(2)(B), a "CCE"), or derived from the disposition of any interest in a CCE.[8]

Before Treas. Reg. § 301.7701-2(b)(6) was amended to include a business entity wholly owned by a foreign government, it was possible for an integral part of a foreign sovereign to form a disregarded entity for U.S. federal tax purposes and claim the

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recognized as a separate entity for U.S. federal tax purposes if it is an integral part of the U.S. state. Revenue Ruling 87-2, 1987-1 C.B. 18, provides that income earned by a U.S. state, a political subdivision of a U.S. state, or an integral part of a U.S. state or of a political subdivision of a U.S. state is generally not taxable in the absence of specific statutory authorization for taxing such income.

[3] T.D. 9012, 67 Fed. Reg. 49862, 49864 (Aug. 1, 2002). See Clarification of Entity Classification Rules, 66 Fed. Reg. 2854, 2856 (Jan. 12, 2001).

[4] See Temp. Treas. Reg. § 1.892-2T(a)(2).

[5] See Temp. Treas. Reg. § 1.892-2T(a)(3).

[6] See Temp. Treas. Reg. § 1.892-5T(d)(4), Example 1(a).

[7] See id., Example 1(c).

[8] See section 892(a)(2)(A).

exemption under section 892 with respect to income not derived from commercial activities, even if the disregarded entity was conducting commercial activities. The preamble to Prop. Treas. Reg. § 301.7701-2(b)(6) published in 2001,[9] which brought foreign government entities within scope, explains that:

> The IRS and Treasury believe that it is appropriate to treat a foreign government similarly to a [U.S.] State in this context. Thus, to achieve parallel tax treatment under the check-the-box regulations of a business entity wholly owned by a [U.S.] State or any of its political subdivisions and a business entity wholly owned by a foreign government, these proposed regulations provide that a business entity wholly owned by a foreign government cannot elect to be treated as a disregarded entity.[10]

When Treas. Reg. § 301.7701-2(b)(6) was amended in 2002 to include a business entity wholly owned by a foreign government, the "parallel tax treatment under the check-the-box regulations of a business entity wholly owned by a [U.S.] State or any of its political subdivisions and a business entity wholly owned by a foreign government" was accomplished by ensuring that a business entity wholly owned by a foreign government "cannot elect to be treated as a disregarded entity" for U.S. federal tax purposes.[11] Hence, the purpose of the modification was to ensure that a business entity whose sole direct owner is either an integral part or a controlled entity is a corporation (and thus subject to the CCE rules). The language of Treas. Reg. § 301.7701-2(b)(6) ("wholly owned by a foreign government or any other entity described in Treas. Reg. § 1.892-2T") may be read consistently with this intent, as the reference to "other entity described in § 1.892-2T" would be unnecessary unless the drafters considered it needed in order to include a controlled entity because they used the term "foreign government" to include only an integral part. Accordingly, the phrase "business entity wholly owned by a foreign government or any other entity described in § 1.892-2T" is properly construed as a business entity that is wholly owned directly by a single controlled entity or integral part and that thus does not have two or more owners.

The Treasury Department and the IRS recognized that use of partnerships by foreign governments could present concerns similar to those presented by disregarded entities but chose to address those concerns differently. Rather than providing a special entity classification rule for partnerships similar to that provided by Treas. Reg. § 301.7701-2(b)(6) for disregarded entities, the Treasury Department and the IRS chose to address concerns presented by partnerships by treating them as potentially CCEs, in a separate rule that was promulgated in 2002 together with Treas. Reg. § 301.7701-2(b)(6).[12]

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[9] Clarification of Entity Classification Rules, 66 Fed. Reg. 2854, 2856 (Jan. 12, 2001).

[10] 66 Fed. Reg. at 2855.

[11] Id.

[12] T.D. 9012, 67 Fed. Reg. 49862, 49864 (Aug. 1, 2002).

Treas. Reg. § 1.892-5(a)(3) provides that, for purposes of section 892(a)(2)(B) (defining a CCE), the term "entity" means and includes a corporation, a partnership, a trust (including a pension trust described in Temp. Treas. Reg. § 1.892-2T(c)) and an estate. Before this regulation was finalized in T.D. 9012 on August 1, 2002, the term "entity" did not include a partnership.[13] Thus, concerns about foreign governments using partnerships to circumvent limitations within section 892 were addressed by adding "partnerships" to the types of entities that, for purposes of section 892(a)(2)(B), could be controlled entities and thus CCEs, which are not eligible for the exemption under section 892,[14] rather than (as in the case of disregarded entities) classifying them as corporations. As a result, classifying a partnership with two or more direct owners, each of which is directly or indirectly wholly owned by a "controlled entity" as defined in Temp. Treas. Reg. § 1.892-2T(a)(3), as a corporation pursuant to contemporaneously issued Treas. Reg. § 301.7701-2(b)(6) was unnecessary to protect the purposes of section 892.

FSub 6 has elected to be classified as a partnership for U.S. federal tax purposes effective on its date of formation. Sub 1 has elected to be classified as an association taxable as a corporation for U.S. federal tax purposes effective on its date of formation. FSub 5 and Sub 1 are the owners of FSub 6, which has at least two owners (such that it cannot be classified as a disregarded entity for U.S. federal tax purposes). Thus, FSub 6 is not "wholly owned" within the meaning of Treas. Reg. § 301.7701-2(b)(6).

RULING

Based solely on the information submitted and the representations made, FSub 6 is not classified as a corporation pursuant to Treas. Reg. § 301.7701-2(b)(6).

CAVEATS

[13] See T.D. 8211, 53 Fed. Reg. 24060, 24064 (June 27, 1988). The flush text under former Temp. Treas. Reg. § 1.892-5T(a) stated: "For purposes of this paragraph, the term 'entity' encompasses corporations and trusts (including pension trusts described in § 1.892-2T(c)) and estates." We note that Prop. Treas. Reg. § 1.892-5(a)(1), however, states: "For purposes of section 892 and the regulations thereunder, the term entity means and includes a corporation, a partnership, a trust (including a pension trust described in § 1.892-2T(c)), and an estate, and the term controlled commercial entity means any entity (including a controlled entity as defined in § 1.892-2T(a)(3)) engaged in commercial activities (as defined in §§ 1.892-4 and 1.892-4T) (whether conducted within or outside the United States) . . ." 76 Fed. Reg. 68119, 68122 (Nov. 3, 2011). The purpose for which the term "entity" is defined in this proposed regulation appears to be broader than is set forth in the temporary and final regulations, but the position of the sentence within the CCE rules suggests that it was intended to apply solely for CCE purposes.

[14] See Clarification of Entity Classification Rules, 66 Fed. Reg. 2854, 2855 (Jan. 12, 2001) ("To ensure that investments in the United States by a foreign government through separate juridical entities are treated similarly, these proposed regulations under § 1.892-5(a) provide that, for purposes of section 892(a)(2)(B), the term entity also includes a partnership."). This rule was finalized in T.D. 9012, 67 Fed. Reg. 49862, 49864 (Aug. 1, 2002). If FSub 6 were to conduct (or be treated as conducting) commercial activities within the meaning of Temp. Treas. Reg. §§ 1.892-4T or 1.892-5T, it could be a CCE.

The ruling contained in this letter is based upon information and representations submitted by FSub 6 accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the ruling request, and it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Furthermore, except as expressly provided in the ruling, no opinion is expressed or implied concerning the entity classification for U.S. federal tax purposes of any entity or party discussed herein. No opinion is expressed or implied concerning whether any of FParent, FSub 1, FSub 2, FSub 3, FSub 4, FSub 5, and FSub 9 is an integral part or a controlled entity as defined under Temp. Treas. Reg. § 1.892-2T(a).

No opinion is expressed or implied concerning whether any income received by any party qualifies for exemption from U.S. federal income tax under section 892, or whether any party conducted commercial activities within the meaning of Temp. Treas. Reg. § 1.892-4T. No opinion is expressed or implied concerning whether any entity discussed herein is a controlled commercial entity under section 892(a)(2)(B).

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that this letter ruling may not be used or cited as precedent. This letter ruling will be modified or revoked by the adoption of temporary or final regulations to the extent the regulations are inconsistent with any conclusion in the letter ruling. See Section 11 of Rev. Proc. 2025-1, 2025-1 I.R.B. 1, 63. If the taxpayer can demonstrate that the criteria in Section 11 of Rev. Proc. 2025-1 are satisfied, a letter ruling is not revoked or modified retroactively except in rare or unusual circumstances.

A copy of this letter must be attached to any income tax return to which it is relevant.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Matthew S. Blum
Senior Technical Reviewer, Branch 5
Office of the Associate Chief Counsel
(International)

cc: