Section 894(c): Hybrid & Reverse Hybrid Entities

Start

U.S. Flow-thru

Yes

Is the entity fiscally transparent from a U.S. tax perspective?

Reg. 1.894-1(d)(3)

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity fiscally transparent from a foreign tax perspective?

Yes

The entity is not a hybrid entity because the entity is treated the same for U.S. and foreign tax purposes.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a foreign hybrid entity?

Yes

Hybrid

Hybrid

The entity is a hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity fiscally transparent from a foreign tax perspective?

Yes

Hybrid

Hybrid

The entity is a hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a U.S. domestic entity?

Yes

Domestic

Domestic

The entity is a domestic hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a U.S. domestic entity?

Yes

Domestic

Domestic

The entity is a reverse hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a U.S. domestic entity?

Yes

Domestic

Domestic

The entity is a domestic reverse hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a foreign hybrid entity?

Yes

Foreign Hybrid

Foreign Hybrid

The entity is a foreign hybrid entity.

No

Foreign Flow-thru

Foreign Flow-thru

Is the entity a U.S. domestic entity?

Yes

Domestic

Domestic

Certain payments received by and made by these entities are subject to special rules under Reg. 1.894-1(d)(2).

No

Foreign Flow-thru

Foreign Flow-thru

Reverse Hybrid

Reverse Hybrid

The entity is a reverse hybrid entity.

Domestic

Domestic

Use of this type of entity by a foreign corporation may or may not prevent the application of treaty benefits to reduce the branch profits tax rate.

Foreign

Foreign

Foreign subsidiaries of U.S. owners are often treated as hybrid entities to gain certain U.S. tax advantages.

Disclaimer

This flowchart has been extensively reviewed to be as complete and accurate as possible. However, due to the complexity of these rules, this flowchart undoubtedly includes errors and omissions. You should consult a tax professional for individual advice regarding your own situation. This flowchart is not updated for changes in the tax laws and should not be relied upon for any purpose whatsoever.

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