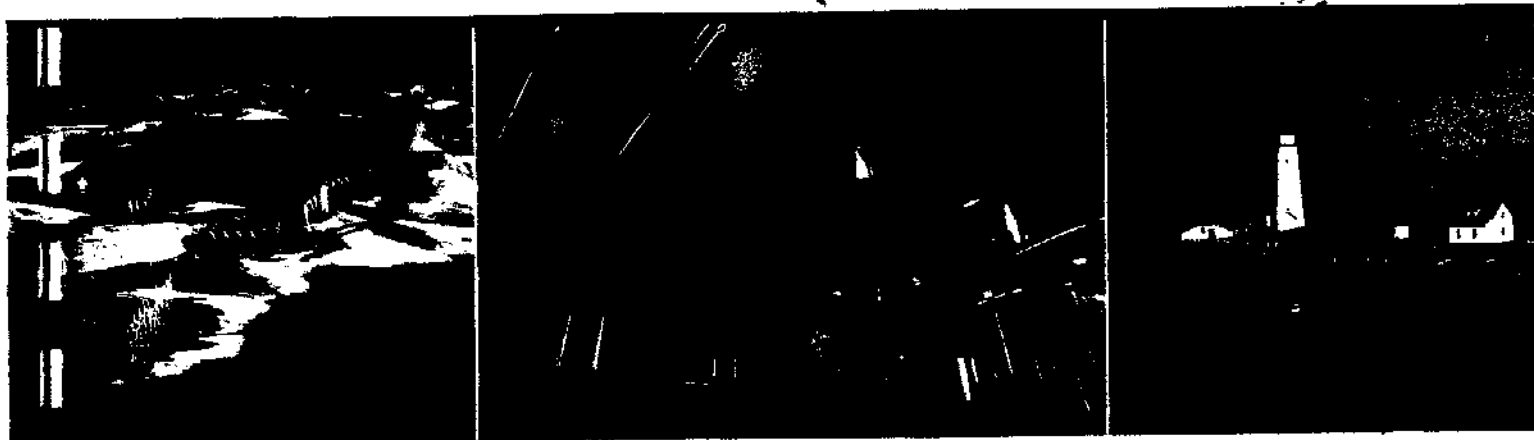


BANK OF NEW ENGLAND

Project Financing for the Alternate Energy Industry



Equity Placement

Bank of New England can arrange the placement of equity. Our network of sources within the industry is supplemented by the resources of Bank of New England's leasing and investment banking subsidiaries, providing access to a wide range of institutional investors.

Fixed Rate Options

Bank of New England can advise and arrange rate swaps, caps and other instruments to protect a project from interest-rate risk.

Alternate Energy Financing Requires Know-how

The skills needed to create workable financing packages are a scarce resource. There are few financial institutions equipped to provide the right package of services, resources and experience.

Bank of New England's extensive industry experience adds value to every project. We can advise in development, flag potential problems early and see you through complex contractual arrangements.

Each type of alternate energy technology presents challenges and opportunities. Bank of New England has specific experience with numerous technologies:

Cogeneration

Our knowledge of cogeneration is extensive. Our work with coal-fired cogeneration projects has given us experience with both traditional and innovative technologies—such as a circulating fluidized bed—used in coal-fired plants.



- In gas-fired projects, we can add value to negotiating gas supply contracts. Our knowledge helps us identify such important project components as the right gas supplier, contract duration, and pricing structure.

Hydro Power

- Our experience with more than a dozen hydroelectric plants has exposed us to the full range of technical and regulatory issues involved in these projects.

Wind Power

- Bank of New England is one of the few commercial banks with extensive experience in this complex segment of the industry.

Waste-to-Energy

- Waste-to-energy projects present unique challenges. Bank of New England can address the interplay of contracts and significant regulatory and environmental issues commonly found in such projects.

Biomass

- Our experience with wood waste facilities enables us to work with you on the fuel supply and technological issues characteristic of biomass projects.

Successful Financing Takes Resources

Bank of New England has the resources and recognition you want on your team. Bank of New England is ranked among the 25 largest U.S. banking institutions. With assets over \$27 billion, Bank of New England continues an ambitious plan of growth and expansion. Project financing is one of our key growth areas.

Your Access to the Financial Community

Bank of New England's ties to the U.S. and international financial community enable us to tap a large body of resources. We draw on the credit resources of other financial institutions to structure syndicated credits for larger scale project financings.

With access to our network, you can successfully react to changing project requirements. In short, Bank of New England can improve the chances of success in finding appropriate financial backing.

For all the reasons we've mentioned, Bank of New England is a recognized leader in project finance. Our staff is ready to explore the possibilities for success with you. Find out what Bank of New England can offer your alternate energy project.

For more information please call us at 617-973-4337.

A World of Difference



Arthur Young International

Offices in more than 370 cities
in 70 countries to serve you

Arthur Young International: A World of Difference

Doing business internationally is different. Competing in foreign markets can be exciting and rewarding for growing companies, but there are also sobering challenges—and basic *differences*—that must be faced. Multinational companies *know*—and aspiring multinationals *learn*—that to achieve their objectives abroad, they need to pay attention to some important differences that affect the way they conduct business:

Financial reporting requirements are different. Most countries have their own unique—and sometimes extensive—requirements for financial reporting, and it is essential that a company know how to comply with local standards.

Tax laws are different. Almost every important business decision a company makes in another country has tax ramifications. Multinational companies need tax advisors who are fully informed about the tax implications at *home* and *abroad* of their international business decisions.

Management problems are different. Everything from business practices to employee attitudes to communications can be different in foreign countries. Executives of multinational businesses need the best advice they can get in dealing with these issues.

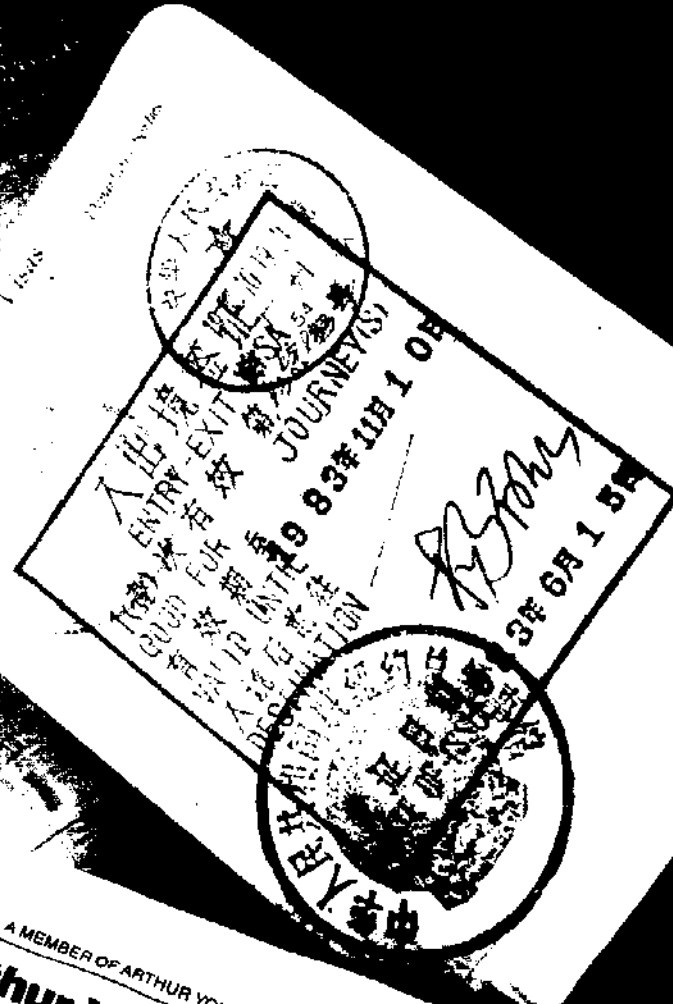
Expatriate employees have special needs. It costs money—and time and attention—to maintain employees abroad. Keeping costs down is critically important. A multinational company needs to consider the impact of tax and other costs at home and abroad in arriving at appropriate compensation decisions.

Arthur Young International firms help hundreds of multinational companies deal with these and other issues. This booklet has been prepared to give you a brief overview of the services that we can provide to your company as you face the challenges of doing business abroad.

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How Arthur Young Professionals Can Help You

- *We have a worldwide organization of accountants, auditors, tax advisors, and management consultants to meet your international business needs.*
- *We are committed to excellence.*
- *We speak your language.*
- *We have "international desks" to serve you in major financial centers.*
- *We give you personal attention.*

We have a worldwide organization to meet your international business needs. Arthur Young International is one of the world's largest professional service organizations providing accounting, audit, tax, and management consulting services to private enterprise and public agencies in 70 countries. The firms of Arthur Young International have offices ready to serve you in over 370 cities around the world.

We are committed to excellence. The partners of the Arthur Young firms are pledged to provide clients with the best in professional service and to conduct their practices in accordance with the highest professional standards applicable to their respective countries. A Management Council representing Arthur Young International firms, supported by an Executive Office, ensures that international services to the clients of Arthur Young firms are well coordinated and of the highest standard. The Management Council establishes policies for the conduct of professional engagements and conducts programs to monitor compliance with these policies. It also sponsors programs for the periodic exchange and education of professional personnel.

We speak your language at home. Dealing with a firm that is a major presence in your own country and in the other countries in which you do business is a definite plus. It means that the Arthur Young professional who handles your business on a regular basis has a direct relationship with your accountants and consultants abroad. There are more than 20,000 professionals in Arthur Young firms worldwide, available to give the kind of assistance you need to help assure the success of your business.

We speak your language abroad. When you work with Arthur Young people in a country other than your own, you benefit from association with professionals in a strong firm that has a significant presence in its locale. We can help guide you through the maze of regulations and laws that your foreign business is exposed to, and keep you abreast of customs and protocol that could cause unforeseen setbacks in your business dealings. At the same time, the liaison of the Arthur Young firms abroad to our office in your home city gives you the comfort of doing business with a familiar face.

We have "international desks" to serve you in major financial centers. We maintain over 100 professionals outside their home countries in major centers around the world to augment local expertise and to serve international clients. These "international desk" professionals, as we call them, are especially well equipped to serve your international business needs. They bring you expertise based on personal experience in their home countries and their countries of residence. They can help you reach solutions to your business problems that satisfy local requirements and your needs at head office. And they speak your language.

We give you personal attention. There is a special quality that distinguishes Arthur Young people: We take business personally. This means that when you turn to us, in any of our offices around the world, you can be sure of receiving the benefit of quality service tailored to your specific needs.

We are known worldwide for our pragmatic approach to business, combining the best of traditional approaches with current, innovative methods and the latest advances in technology. Yet, we believe this is not enough: You deserve *more* than technical expertise. We make the extra effort to know your business concerns. By treating you and your business colleagues as individuals, we can meet your company's very particular demands.

No matter how big or small your organization is, we believe we can provide recommendations that are timely, forward-thinking, and creative. That is why so many clients regard us not only as auditor, tax professional, or management consultant but also as trusted advisor.

Arthur Young Audits: The Benefits for You

- *Experienced professionals looking at your business.*
- *Imaginative, sensible recommendations for management.*
- *Worldwide audit teams; centralized audit decisions.*
- *Advanced, cost-effective audit technology.*

Experienced professionals looking at your business. Investors, lenders, and regulators rely on us to be rigorous and independent in our scrutiny of financial information published by management—and we are.

Imaginative, sensible recommendations for management. Management also relies on our experience. We believe it is our responsibility to use the knowledge of your operations accumulated during the course of the audit to help management solve problems and seize opportunities.

Worldwide audit teams; centralized audit decisions. The typical Arthur Young international audit team is headed by a coordinating partner located near your head office who has full authority to make all deci-

sions on our worldwide services to you. We ensure that you get efficient coordination with your financial management and your internal audit group, that there is good personal chemistry with your key people, that you receive timely communication of our audit findings, and that there are no surprises.

Advanced, cost-effective audit technology. The need to provide clients with an audit that can supply sophisticated information and be reasonable in cost has led Arthur Young to search for many ways of integrating technology into our work. One of our latest innovations is a sophisticated microcomputer software system that makes the audit significantly more efficient. For the first time, expert systems technology has been incorporated throughout the audit process to assist our audit teams in developing the most efficient audit plans and tests. The computer also allows us to conduct a "paperless" audit, where schedules, trial balances, and worksheets can be created electronically, thus improving productivity.

And what are the benefits for you? Enhanced timeliness and responsiveness, reduced risk of overauditing, and easy integration with your own computer systems.

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The first conference
begins at 10

Comprehensive International Tax Services

- *Income tax planning: a priority for international business.*
- *Special tax services to meet your special tax needs.*
- *Help for your expatriate employees.*
- *Keeping you informed.*

Income tax planning: a priority for international business. Our clients turn to us for imaginative, comprehensive international tax planning advice. With the increasing complexity of tax laws, our thorough knowledge of how they are administered in various countries is more crucial than ever, and is the basis of sound advice that helps clients to properly minimize their tax obligations. For example, we were called in by a European manufacturer/retailer undergoing major international expansion because its growth had been so rapid that management never spent the time to determine whether the optimal tax structure was in place. After our team examined the structure of the group, from manufacturing to marketing, we recommended that a large segment of the operation could be restructured and set up in a lower tax jurisdiction. Some of the recommendations were transferable to the company's operations in other countries: In one North American jurisdiction alone, an immediate tax saving of more than \$1 million was achieved.

Special tax services to meet your special tax needs. We have over 3,400 full-time tax professionals around the world to help meet your needs. Some are specialists in particular fields of taxation. Commodity taxes (e.g., sales and excise taxes, the European value-added tax, customs duties, etc.), personal executive tax planning, taxes applicable to particular industries, such as banking, insurance and natural resources, are examples of specialization within an already specialized professional discipline.

Help for your expatriate employees. We assist you in establishing appropriate levels of compensation for employees residing outside their home countries. You get our help in assessing whether your international tax costs can be reduced, and in assuring your personnel overseas that their tax filings comply with both foreign and domestic requirements.

Arthur Young's expatriate tax services are unparalleled. We show you how to reduce the cost of keeping employees abroad, and how to look after the affairs of foreigners on assignment in your home country. We consult with many major companies on expatriate taxation—providing this service not only to our own multinational audit clients, but to a substantial number of major companies that are audited by other accounting firms.

Keeping you informed. Today, as more and more clients of every size conduct business outside their national boundaries, our expertise in international tax helps assure that cross-border tax services are well coordinated. Our broad resources keep us current on developments around the world—and we pass this knowledge on to you.

For example, in many countries of the British Commonwealth, where national budgets are prepared in great secrecy, our tax professionals provide an analysis as soon as a budget message is delivered, usually within 24 hours. In the United States, our tax specialists produce *The Arthur Young Tax Guide*, which has achieved wide public acceptance, reaching the top of *The New York Times* best-seller list. The historic tax reforms and subsequent tax revisions in the United States are also the subject of publications and seminars by our U.S. tax professionals aimed at clients with problems to solve or opportunities to capitalize on.

Arthur Young International publishes *World Business Reports*, an information service that reports on tax and other issues affecting international trade and investment in 35 countries. It is a sourcebook for clients seeking answers to vital questions concerning the challenges of conducting businesses in the most important markets around the world. A typical report includes information on the country's general business climate, regulations governing competition, corporate and personal taxation, financial reporting requirements, labor considerations, foreign trade patterns, and much more.

Services in Support of Management

- *Making information systems work for you.*
- *Focusing corporate resources.*
- *Changing your company's dimensions.*

Making information systems work for you. Our work in information technology helps your business in two ways: First, to decide whether the computer systems you have in place are suitable for the needs of your business. Second, to help your company bridge the gap between people and computers—and translate varied demands into workable, realistic information systems.

We don't view technology as a business in itself—but as an important tool leading to crucial decisions, which can be translated into operational success and increased profits. Organizations of all sizes should be able to use computers to support key business processes, activities, and strategic plans. To this end, Arthur Young developed Strategic Information Systems Planning, which builds and enhances a vital working partnership among all computer users.

A major problem for business has been the inordinate amount of time (and expense) needed to make even routine changes to computer systems. To help our clients meet this challenge, we entered into a joint venture with James Martin, an acknowledged pioneer in information technology development. The result is the *Information Engineering Workbench*, an integrated set of software tools that automates the work of systems analysts, designers, and programmers, and improves the speed and quality of computer systems design.

Focusing corporate resources. In this age of unprecedented competition and change, many companies have found that a clear sense of purpose throughout a company is a key, but elusive, ingredient for success. How do you get all parts of your organization to stop pursuing separate goals and concentrate their efforts? The Arthur Young Strategic Management Consulting Group's *FOCUS/SEP* process can help you choose the direction for your organization, define how to get there, and identify the resources needed to achieve your goals.


It is an approach that helps you take a hard look at your organization, competition, current resources and strategies, and future opportunities and risks.

Strategic planning can help in many areas—for example, it can lead to the conclusion that information systems need updating or that costs must be reduced, or that a business unit should be disposed of. Not only can our specialists help you plan these changes, they can also help you put them into effect.

Changing your company's dimensions. No matter what type of company you manage, there is a stage when strategies for the future sit heavily on your shoulders: Should you buy out a competitor? Do you want to merge with a compatible operation? Is it time to sell out and start a new business from scratch? Our professionals have been involved in transactions of every size, with major corporations, governments, and private, owner-managed companies, to bring together the right candidates for mergers, acquisitions, and divestitures.

For example, when a large U.S. insurance broker acquired a diversified organization headquartered in the United Kingdom, we assisted the new owner in disposing of a retailing operation that did not fit his corporate strategy; our functions began with the structuring of the deal, and followed through to the closing. In another instance, we were engaged as advisors in structuring a joint venture between a large diversified business and a wholesale food operation; again, we helped to develop the strategy, developed the corporate structure for the joint venture, and assisted the client with his negotiations.

Our services in this area are used not only by privately held and public companies, but by government bodies as well. Today, as national governments seek to turn state-run industries back to private hands, we often help them find the right partners. For example, we helped locate a major pulp and paper company as a buyer for a kraft mill owned by a Canadian province.

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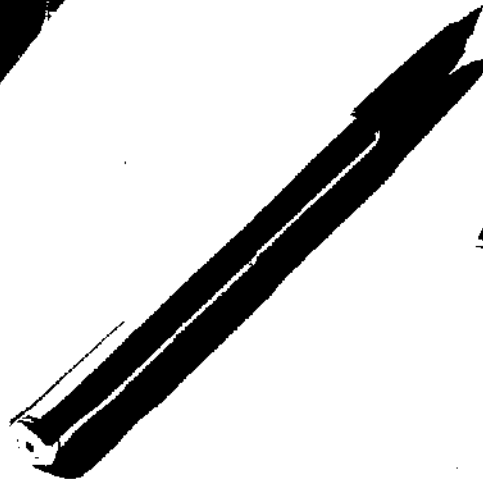
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Results of a Survey of Dutch Investors
That Have Established
Operations in the United States



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Moret & Limperg
Registrars/Accountants

*Hope this material
is helpful.*

 **The Netherlands
in the United States**

 **Arthur Young International**
Van Borsselestraat 12 1083 BA Amsterdam
Telephone 020-5497 222 Telex 14376

Services in Support of Management

- *Gaining access to sources of international capital.*
- *Planning for profitability.*
- *Services for growth and expansion.*
- *Strategies for corporate rescue.*

Gaining access to sources of international capital.

When a company needs to raise capital outside its home country, the roadblocks sometimes seem impassable. Our professionals can make the path more straightforward. For example, when one of our Swedish clients wanted to raise funds in several countries simultaneously (resulting in one of the largest public securities offerings ever made in Europe), we worked with its lawyers and underwriters to clarify the accounting and financial reporting issues. In another instance, we helped a European client to become qualified to make a public offering in the United States, through appropriate filings with the U.S. Securities and Exchange Commission, and worked with the underwriting team to help ensure the offering's success. And in Japan, which is increasingly important as a source of international capital, we have helped a number of North American and European corporations to list their shares on the Tokyo Stock Exchange, thus offering access to that country's investors.

Planning for profitability. The decision to bring a new product or service to market requires a successful combination of risk analysis, information, experience, and entrepreneurial spirit. Our specialists in costing and profitability planning, for example, helped a major international bank to pinpoint a previously unrealized opportunity for profit improvement, by reviewing product lines, the current volume of business, and the revenues and costs of each product. We also reviewed the average cost of funds, the loan yields and transac-

tion costs of all banking product lines, and the computation of profit margins and break-even points. Our study resulted in the bank's detailed re-examination of marketing thrusts and business direction in terms of profit potential.

Services for growth and expansion. While much of our consulting work deals with specific situations, others deal with typical stages in the life of a modern business organization. In many places, from Istanbul to Indianapolis, from São Paulo to Seoul, our accounting and consulting professionals help new companies become established by drafting business plans, setting up internal accounting systems, and determining ways of funding future growth, either privately or as public companies. We can also help established companies entering a country for the first time to locate the right marketing assistance, construction contractors, or business partners for their specific needs. For example, when a major consumer products company needed assistance in establishing business operations in the People's Republic of China, our professionals in Hong Kong provided the liaison. We helped our client to negotiate the venture with government officials, helped to assess the proposed investment and the costs involved, and helped to spell out the responsibilities of each party in the deal. The result was a cooperative production venture with a major Chinese municipal government.

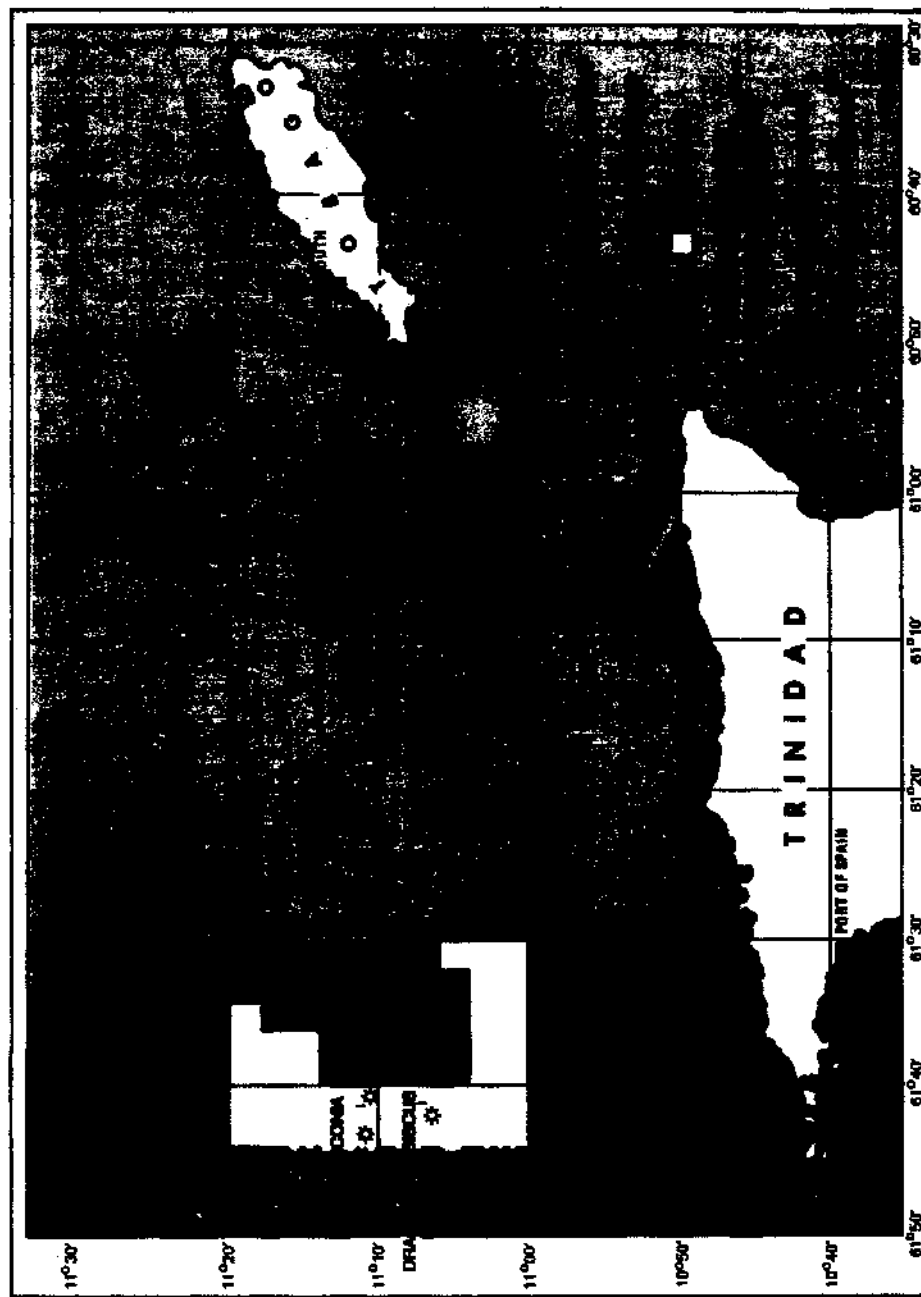
Strategies for corporate rescue. Not all of our work is focused on helping prosperous or growing companies to function properly and thrive. When a company finds itself in financial trouble or even insolvent, it needs help in assessing the resources at its disposal and dealing with its creditors. This difficult position calls for a whole new set of financial plans, which becomes part of the strategy for effecting a corporate rescue.

We Are Ready to Help You

You probably have realized by now that whether yours is a major multinational corporation or an entrepreneurial venture expanding into new foreign markets, Arthur Young firms around the world are ready to help you meet your business needs. Are we trying to be all things to all people? Definitely not. We do what we do best: auditing and accounting, tax planning, and management consulting. But when it comes to making those services meet the needs of our clients, Arthur Young professionals do it with imagination, efficiency, and good judgment. Because at Arthur Young, we take business personally.

If you have a question about anything that you have read here, or would like to know more about what we have to offer, please call us in any of the more than 370 cities around the world where Arthur Young people can be found.

FIGURE 1
 North Coast Marine Area, Trinidad-Tobago



3.0 PROJECT STRUCTURE AND TAX CONSEQUENCES

The purpose of this section is to address the more salient income tax issues associated with the proposed international methanol operations. Conclusions are based on a preliminary review of Trinidadian taxation. Favorable interpretations under current political and tax regimes upon which advice has been given are subject to change. To facilitate presentation, this section is divided into several parts each containing a brief discussion of the complex issues involved. The following areas are discussed:

- Organizational Structure
- Plantship Ownership
- Profile of Investors
- Plantship Operation
- Marketing Activities

3.1 ORGANIZATIONAL STRUCTURE

A proposed organizational structure consists of Yankee Energy Corporation, a U.S. corporation, which will form in the Cayman Islands a marketing company and a separate operating company. The marketing company will purchase the plantship and subsequently sell it to the operating company which will conduct a branch operation in Trinidad. Processed methanol will be sold by the operating company to the marketing company which will then sell the methanol to U.S. consumers.

3.1.1 PLANTSHIP OWNERSHIP

Under the proposed structure, the Plantship initially will be owned by the Cayman Islands marketing company but title will be transferred upon sale at cost plus capitalized interest to the operating company upon commencement of operations.

Since there is no income tax in the Cayman Islands currently, companies organized there will not be subject to Cayman Islands taxation on sales or manufacturing income.

From a Trinidad perspective, there is a possibility of operating virtually tax free for 10 years. Under fiscal incentive legislation for which there are no established qualification criteria, a company may operate income tax free for 10 years. Potentially, the holiday may be extended to apply to petroleum and other taxes as well. Qualification is assessed on an ad hoc basis. Otherwise, branch profits are subject to taxes in Trinidad.

The Cayman Islands marketing company will be the entity which will:

- 1) contract for the construction of the plantship and
- 2) service debt, on terms approved by lenders, from monies received from the operating company.

It must be noted that an import duty tax may apply to the importation of the plantship to Trinidadian waters. However, it may be possible to negotiate a low rate.

3.1.2 PROFILE OF INVESTORS

There are basically two types of potential U.S. investors; U.S. corporations with low taxed off-shore earnings and U.S. corporations with no off-shore activities.

Generally, a foreign subsidiary of a U.S. multinational company may be able to invest its low-taxed offshore earnings in the proposed foreign methanol operations and defer U.S. tax until repatriation. However, investments by foreign subsidiaries may result in application of the subpart F and/or "Passive Foreign Investment Company" rules to the domestic parents. To the extent a domestic corporation is taxed on such foreign source income, it may be able to take advantage of the foreign tax credit for taxes paid by the subsidiary.

U.S. corporations with no offshore activities may also invest but they would be taxed in the U.S. on income received on the investments. These investors may also be able to take advantage of the foreign tax credit with respect to any foreign taxes paid on the income by them. Additionally, the infusion of foreign source income may enable these investors to utilize foreign tax credit credit carryovers.

The project may also have off-shore investors in the marketing company. The choice of U.S. investors and the level of off-shore investors will be made only once the U.S. participation level is known.

3.1.3 PLANTSHIP OPERATION

-Cayman Islands Operating Company - As noted above, the operating company would be free of Cayman Islands' tax. Not considering the potential tax holiday in Trinidad, branch operations conducted there would be taxable in Trinidad, however, depreciation deductions may offset income and initially result in a loss operation. If the operating company qualifies for the tax holiday discussed above, the operating company may operate tax-free for up to ten years. Further, the operating company should not cause adverse U.S. tax effects under either PFIC rules or the Subpart F rules. However, increased investment of earnings in U.S. property could result in deemed distributions to the U.S. owners of the marketing company.

As stated above, the Plantship may benefit from a 10 year tax holiday in Trinidad. However, for purposes of better appreciation of other possible tax consequences, the following subparts summarize various Trinidad taxes and rates.

-Corporate Taxes - For Trinidad and Tobago tax purposes, corporations are classified as either resident or nonresident. Resident corporations are taxed on worldwide income whereas nonresident corporations are taxed only on income

derived from Trinidad and Tobago irrespective of place of receipt. To the extent not relieved by fiscal incentive legislation or otherwise through negotiation, the current corporate income tax rate is 40%. An "Unemployment Levy" of 5%, a 1.5% "Business Levy" and a 3% "Impost" tax may also apply if not included in fiscal relief provisions.

Petroleum Taxes - In lieu of corporate taxes an operator (not a mere owner who rents out the equipment) of extraction or other equipment at a natural gas site is subject to "Petroleum Taxes" at the current rate of 45%. This tax is subject to negotiation under current regimes, however, substantial changes to the Petroleum Tax legislation is pending.

Branch Remittance Tax - Foreign corporations deriving profits from Trinidad and Tobago through branch operations are subject to corporate taxes at the full rate. Net profits are deemed remitted in full and are subject to branch withholding taxes at a 30% rate. This rate is reduced if the entity is organized in a treaty country as shown below. Amounts reinvested in Trinidad, other than funds used to replace fixed assets, are not deemed remitted.

Other Withholding Taxes - Withholding tax applies to distributions to nonresidents including payments of interest. To the extent capitalized interest may be recharacterized as other than principal withholding tax may apply. The following chart depicts the rate applicable to several categories of distributions and/or payments. The withholding rate may run as high as 30% but it may also be reduced by treaty.

	<u>Dividends*</u>	<u>Interest*</u>	<u>Royalties</u>	<u>Rent</u>	<u>Subsidiary Profits</u>
Non Treaty Country:	15-25	25-30	20-30	30	30
Treaty Country:					
U.S.	10-25	10-25	25	30	10
U.K.	10-20	10-20	20	30	10

*Note: Rates on interest and dividends vary depending upon the recipients ownership of the paying corporation and on whether the interest is bank interest.

3.1.4 MARKETING ACTIVITIES

As stated above, a separate corporation would be organized in the Cayman Islands. This company would operate as a marketing company. Methanol would be sold by the operating company to the marketing company which in turn would sell the methanol to U.S. consumers. Marketing activities may potentially be arranged so as to not result in establishment of a branch in the U.S. Several U.S. tax issues arise with respect to the operations of the proposed marketing company. The issues relate to intercompany pricing between the operating company and the marketing company, Subpart F rules, PFIC rules and imported property considerations. These issues will be discussed in order.

Intercompany Pricing Rules

The Internal Revenue Service has broad authority to allocate or reallocate items of income or deduction between related entities under common control. The phrase "common control" as used here, is a broad concept and includes not only actual legal control but also indirect or practical control. Generally, it is sufficient to conclude "common status" if some entity has the ability to significantly influence the operations of the two companies.

The general rule with respect to intercompany pricing or transfer pricing is that the price charged by a related company to another related company should equal an amount that would be charged to an unrelated company. This is the so-called "arm's length" standard. To the extent transfer pricing does not comply with the arm's length standard, the Internal Revenue Service is free to allocate items of income or deduction between the companies so that income is properly reflected. Consequently, sales of methanol to the marketing company should be priced in consideration of intercompany pricing rules.

Subpart F Rules

The proposed organizational structure should not run afoul of the Subpart F rules. Under the proposed structure, the Trinidad operating company, a related party organized in the Cayman Islands, would be selling methanol processed at its branch location in Trinidad to the related marketing company, organized in the Cayman Islands. The marketing company would sell the methanol to U.S. consumers tax free in the Cayman Islands. However, the manufacturing operation would either be subject to taxes in Trinidad or not subject to taxes depending upon whether or not the company is able to take advantage of the Trinidad tax holiday. Conversely, if cash is left in the marketing company and not distributed, its investment by the marketing company could result in foreign personal holding company income. If such income exceeds the lesser of 5% of the marketing company's gross income or \$1 million, the income would be deemed distributed to the U.S. shareholders under the Subpart F rules resulting in current U.S. taxation at the shareholder level.

PFIC Rules

The marketing company could potentially qualify as a PFIC with the attendant adverse tax consequences to the U.S. shareholders. If the marketing company's average assets for the year are comprised of 50 percent or more passive income generating assets, the company will qualify as a PFIC.

The consequences of PFIC status depend on whether or not the corporation is a Qualified Electing Fund (QEF). A QEF results in current taxation at the shareholder level. Non-QEF status results in adverse taxation upon excess distributions. Since the company will presumably have minimal fixed assets, the company's passive assets, e.g., cash or temporary investments, could easily constitute 50 percent or more of the company's total assets.

Imported Property Considerations

A House proposal under the 1987 Tax Act would result in current taxation of the U.S. shareholders of a controlled foreign corporation to the extent of the corporation's "imported property income." The rules would operate similar to the Subpart F rules resulting in current taxation at the U.S. shareholder level as a result of deemed distributions of imported property income. Although these rules have not been enacted there is a potential for their enactment in the future.