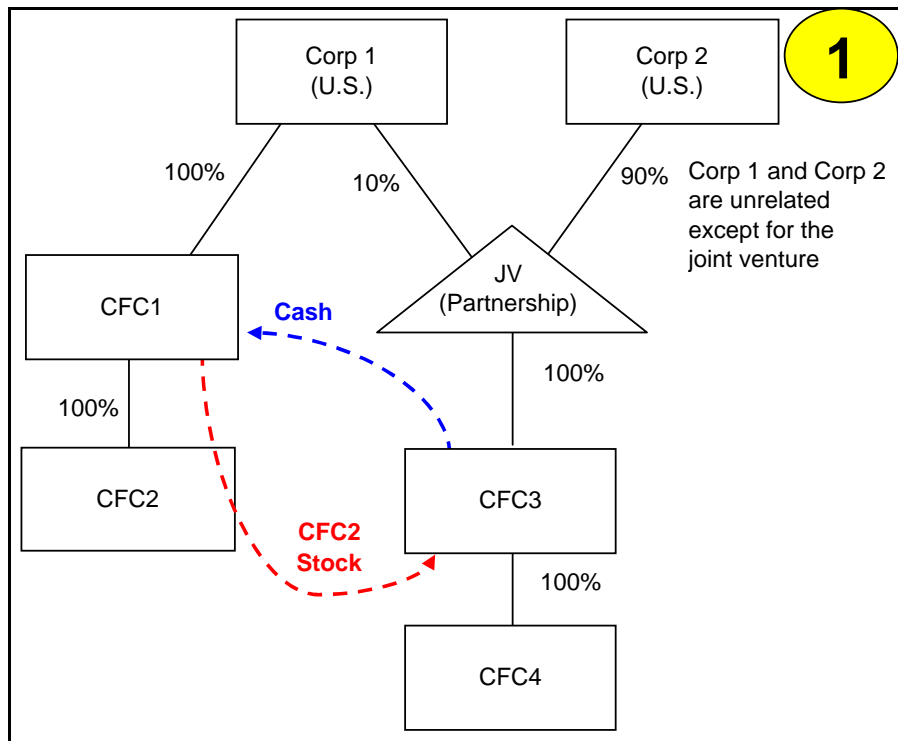


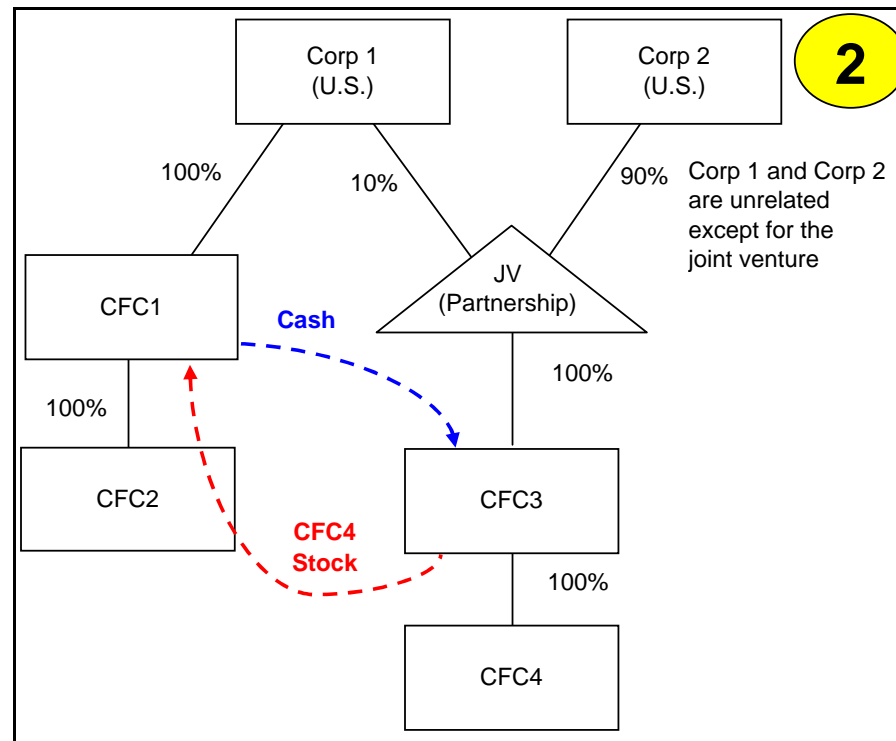
## Section 304 Can Be a One-Way Street

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### 304 Transaction



### Non-304 Transaction



In general, for section 304 to apply, one or more persons must be in control of each of two corporations. Control means the ownership of stock possessing at least 50% of the total combined voting power of all classes of stock entitled to vote or at least 50% of the total value of shares of all classes of stock. The constructive ownership rules of section 318 (with certain modifications) apply for purposes of determining control.

**Box 1 Above:** Under section 318(a)(2)(C), the stock of CFC2 is considered owned by Corp 1. Under section 318(a)(3)(A) the stock owned by Corp 1 is considered owned by the JV partnership. Therefore, the JV partnership is in control of CFC2 and CFC3. As a result, in box 1 above, the acquisition by CFC3 of the stock of CFC2 will be subject to section 304.

**Box 2 Above:** Section 318(a)(2)(A) provides that stock owned by a partnership shall be considered as owned proportionately by its partners. Thus, the stock of CFC3 will only be considered 10% owned by Corp 1. Therefore, although Corp 1 is in control of CFC1, it is not in control of CFC3 or CFC4. Therefore, in box 2 above, the acquisition by CFC1 of the stock of CFC4 will not be subject to section 304.

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