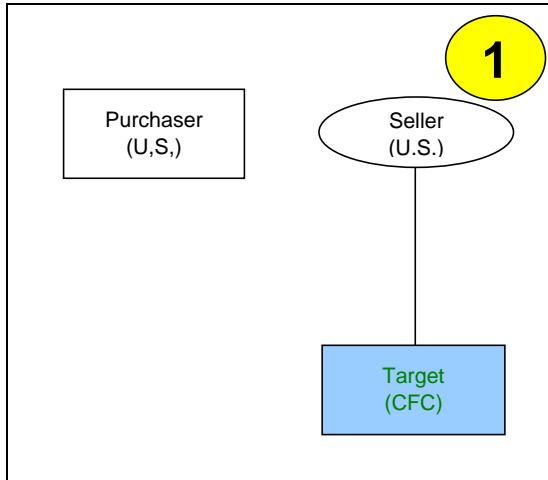


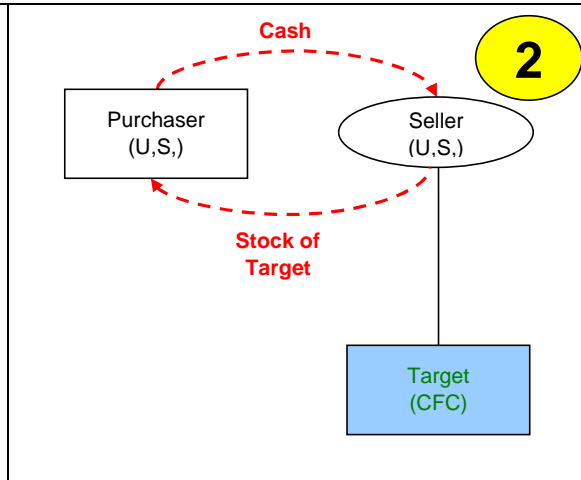
Section 338(g) Election - Controlled Foreign Corporation Target

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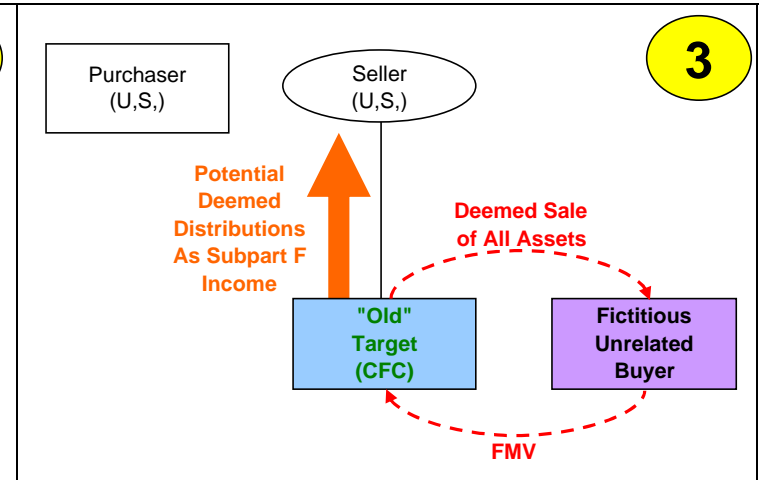
Initial Structure



Acquisition (July 1st)



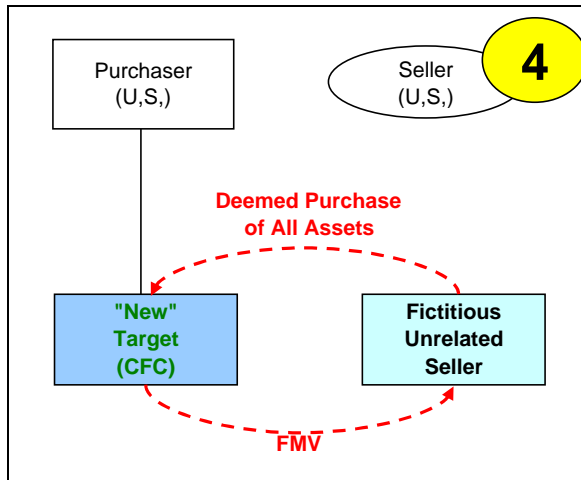
Deemed Asset Sale (At the Close of the Day July 1st)



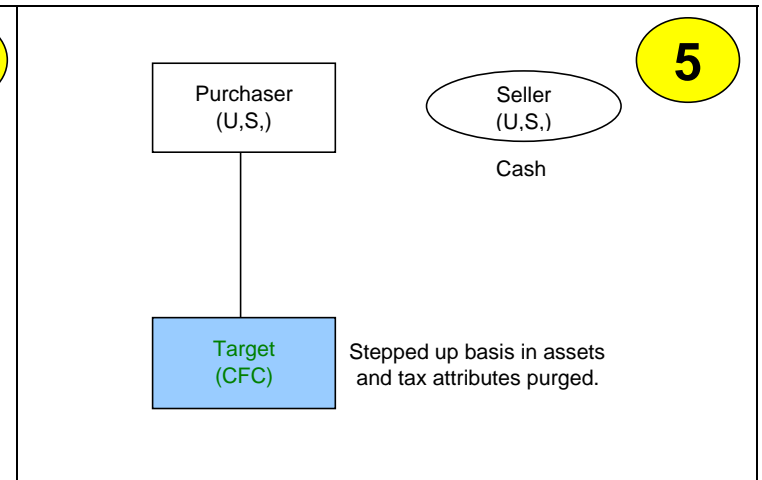
The Purchaser makes the election under section 338(g). However, the results of the deemed asset sale, where the Target is a CFC, generally impact the U.S. seller. See Reg. 1.338-9(b)(2). If the seller does not want the purchaser to make such an election, this should be specified in the stock purchase agreement.

The gain recognized by Seller on the sale of stock may be partially or wholly characterized as ordinary dividend income under section 1248. Before this recharacterization takes place, however, Seller may recognize subpart F income from Old Target's deemed sale of assets. The deemed asset sale will increase the section 1248 amount and any subpart F income will affect Seller's basis in the stock for purposes of determining the amount of gain to be recognized.

Deemed Asset Purchase (Beginning of the Day July 2nd)



Ending Point



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