

**Reg. 1.367(a)-3(d)(3), Example 14
368(a)(1)(C)**
(formerly Example 11)

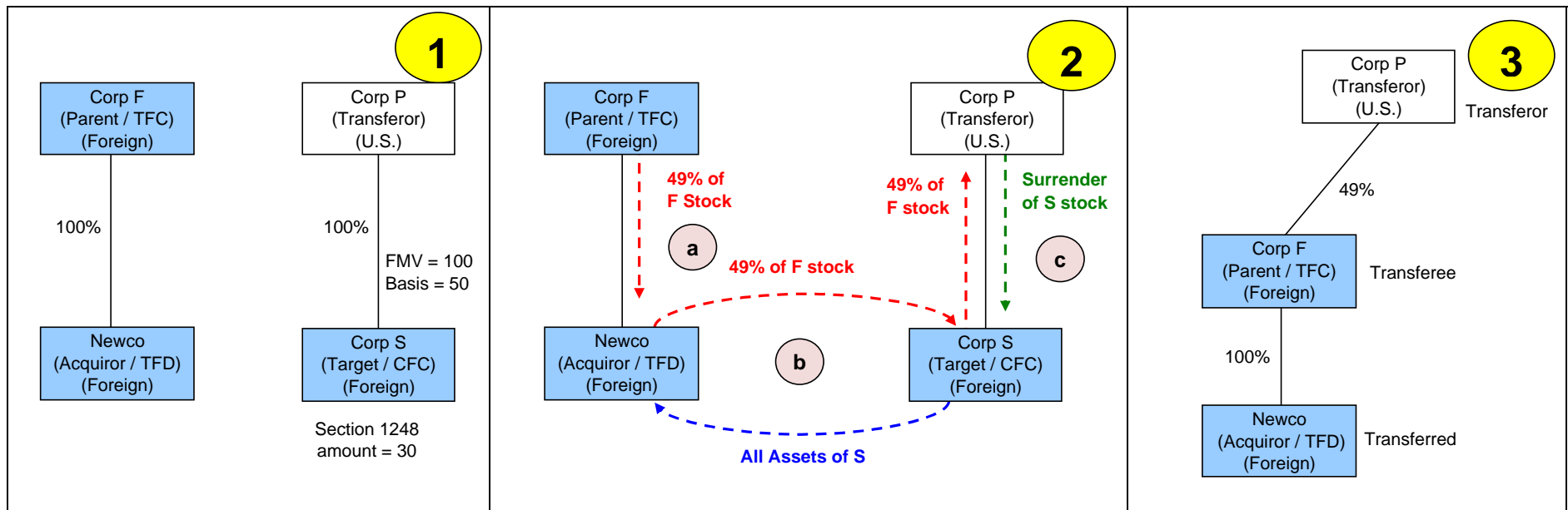
**Indirect Stock Transfer -
Triangular C Reorganization**

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Initial Structure

Triangular C Reorganization

Ending Point



F, a foreign corporation, owns all of the stock of Newco, which is also a foreign corporation. P, a domestic corporation, owns all of the stock of S, a foreign corporation that is a controlled foreign corporation within the meaning of section 957(a). P's basis in the stock of S is \$50 and the value of S is \$100. The section 1248 amount with respect to S stock is \$30. In a reorganization described in section 368(a)(1)(C), Newco acquires all of the properties of S, and P exchanges its stock in S for 49 percent of the stock of F.

P's exchange of S stock for F stock under section 354 will be taxable under section 367(a) (and section 1248 will be applicable) if P fails to enter into a 5-year gain recognition agreement in accordance with §1.367(a)-8. If P enters into a gain recognition agreement, the exchange will be subject to the provisions of section 367(b) and the regulations thereunder as well as section 367(a). Under §1.367(b)-4(b), P must recognize the section 1248 amount of \$30 because P exchanged stock of a controlled foreign corporation, S, for stock of a foreign corporation that is not a controlled foreign corporation, F. The indirect stock transfer rules do not apply with respect to section 367(b). The deemed dividend of \$30 recognized by P will increase P's basis in the F stock received in the transaction, and F's basis in the Newco stock. Thus, the amount of the gain recognition agreement is \$20 (\$50 gain realized on the transfer less the \$30 inclusion under section 367(b)). F is treated as the transferee foreign corporation and Newco is the transferred corporation.