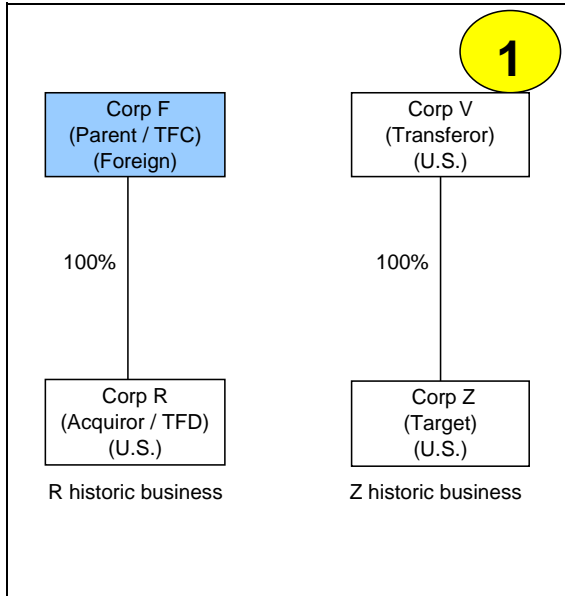


**Reg. 1.367(a)-3(d)(3), Example 7A
368(a)(1)(C)**
(formerly Example 6A)

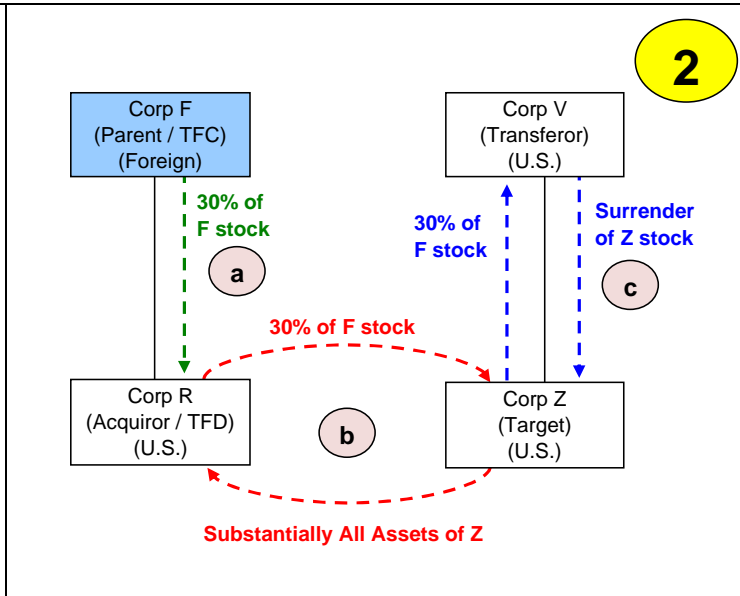
**Indirect Stock Transfer -
Triangular C Reorganization
with Later 351**

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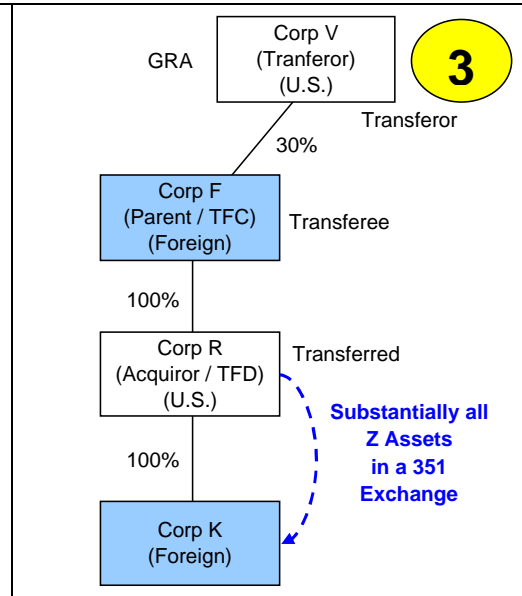
Initial Structure



Triangular C Reorganization



351 Exchange (Yr 4 of GRA)



F, a foreign corporation, owns all of the stock of R, a domestic corporation that operates an historical business. V, a domestic corporation, owns all of the stock of Z, also a domestic corporation. V does not own any of the stock of F (applying the attribution rules of section 318 as modified by section 958(b)). In a triangular reorganization described in section 368(a)(1)(C), R acquires all of the assets of Z, and V receives 30% of the voting stock of F. During the fourth year of the gain recognition agreement ("GRA"), R transfers substantially all of the assets received from Z to K, a wholly-owned domestic subsidiary of R, in an exchange described in section 351.

This transfer of assets by R to K must be analyzed to determine its effect upon the GRA, and such transfer is also an outbound transfer of assets that is taxable under section 367(a)(1) unless the active trade or business exception under section 367(a)(3) applies. If the transfer is fully taxable under section 367(a)(1), the transfer is treated as if the transferred company, R, sold substantially all of its assets. Thus, the GRA would terminate because V owned an amount of stock in Z described in section 1504(a)(2) immediately before the transaction, and R is a domestic corporation. See §1.367(a)-8T(g)(2). If each asset transferred qualifies for nonrecognition treatment under section 367(a)(3) and the regulations thereunder (which require, under §1.367(a)-2T(a)(2), the transferor to comply with the reporting requirements under section 6038B), the transfer does not trigger the GRA if V complies with the requirements contained in §1.367(a)-8T(e)(1)(iii). If a portion of the assets transferred qualify for nonrecognition treatment under section 367(a)(3) and a portion are taxable under section 367(a)(1) (but such portion does not result in the disposition of substantially all of the assets), the GRA will not be triggered if such information is reported as required under §1.367(a)-8T(b)(5) and V satisfies the requirements contained in §1.367(a)-8T(e)(1)(iii).

Ending Point

