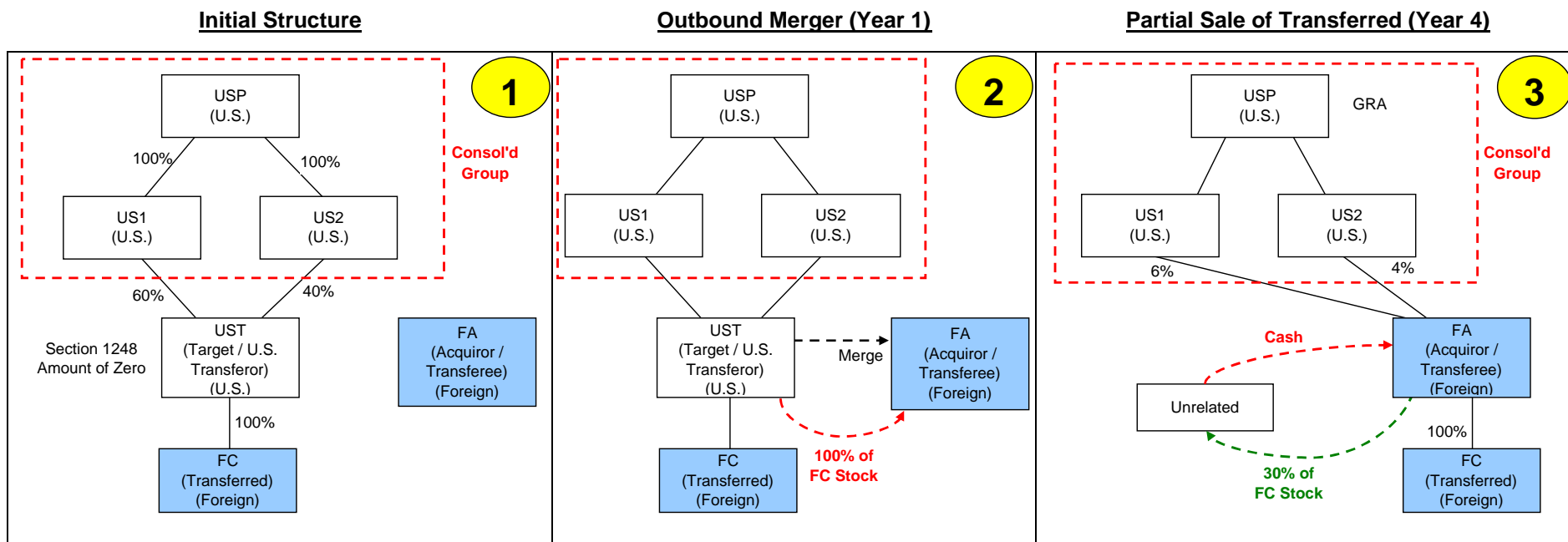


**Temp. Reg. 1.367(a)-3T(e)(3), Example
Alternate Facts**

**Outbound Merger Under
Section 367(a)(5)**

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US1 and US2, domestic corporations, own 60% and 40%, respectively, of the fair market value of UST, also a domestic corporation. US1 and US2 are members of a consolidated group in which USP is the common parent. UST owns 100% of FC, a foreign corporation. In year 1, UST transfers 100% of the stock of FC to FA, a foreign corporation, in a reorganization described in section 368(a)(1)(A) after which US1 and US2 own 6% and 4%, respectively, of the stock of FA. At the time of the initial transfer, the section 1248 amount with respect to the FC stock is \$0. The notice requirement under Treas. Reg. §1.367(b)-1(c) is satisfied. Section 7874 does not apply to FA's acquisition of the stock of FC. US1 and US2 satisfy the conditions set forth in the second sentence of section 367(a)(5), including making appropriate basis adjustments. US1 is a 5-percent transferee. US2 is also a 5-percent transferee shareholder as a result of applying the attribution rules of section 318, as modified by section 958(b). USP files gain recognition agreements on behalf of both US1 and US2. In year 4, FA sells 30% of FC stock for cash. Thus, US1 and US2 must include in income in year 4 18% and 12%, respectively, of the gain realized, but not recognized, on the initial transfer (the 30% of the transferred property that was disposed of multiplied by the amount of gain subject to the gain recognition agreement (corresponding to the 60% and 40% of the fair market value of UST stock that US1 and US2, respectively, held immediately before the initial transfer)), and pay any applicable interest.