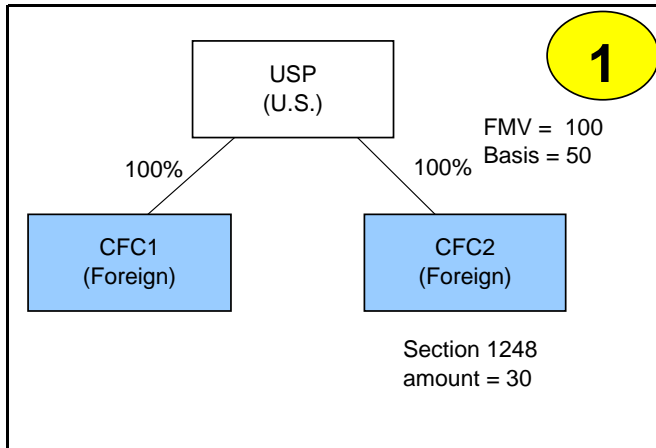
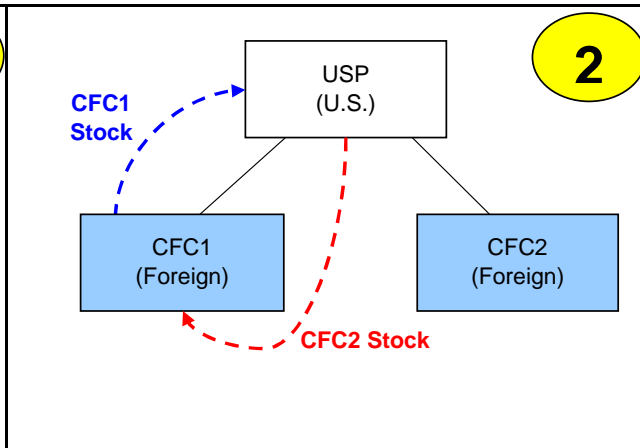


Outbound 351 & Sale of Transferred

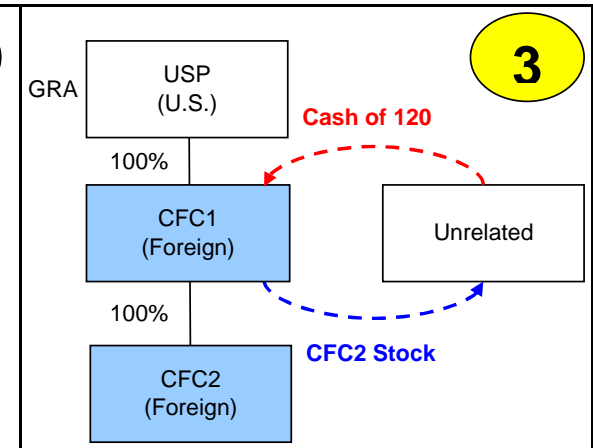
Initial Structure



351 Exchange / B Reorganization



Sale of CFC2 Stock (2 Years Later)



USP, a domestic corporation, owns all of the stock of two foreign corporations, CFC1 and CFC2. USP's section 1248 amount with respect to CFC2 is \$30. USP has a basis of \$50 in its stock of CFC2; the stock of CFC2 has a fair market value of \$100. In a transaction described in sections 351 and 368(a)(1)(B), USP transfers the stock of CFC2 to CFC1 in exchange for additional stock of CFC1 with a basis of \$50. The transaction is subject to both sections 367(a) and (b). To qualify for nonrecognition treatment under section 367(a), USP enters into a gain recognition agreement for \$50 under this section. Two years after the initial transfer, CFC1 sells the stock of CFC2 for \$120. At the time of the sale, the section 1248 amount with respect to the CFC2 stock continues to be \$30. The \$70 of gain recognized on the sale of CFC2 stock would give rise to a \$70 subpart F inclusion to USP under section 951(a)(1)(A).

CFC1's sale of CFC2 stock is a triggering event. As a result, USP must amend its return for the year of the initial transfer and include \$50 in income (as well as pay any applicable interest), \$30 of which will be recharacterized as a dividend pursuant to section 1248. As of the date of the initial transfer, CFC1 has a basis of \$100 in its CFC2 stock, and USP has a basis in its CFC1 stock of \$100. As a result of the sale of CFC2 stock by CFC1, USP will have a \$20 subpart F inclusion under section 951(a)(1)(A).

Ending Point

