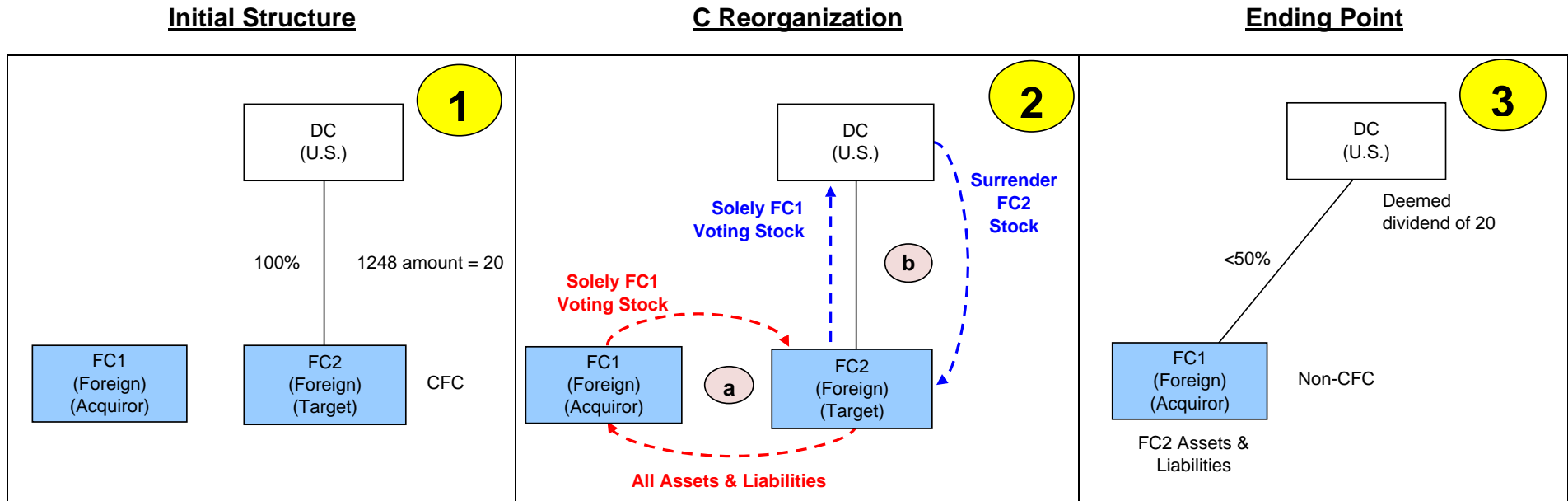


**Foreign to Foreign C Reorganization:
CFC to Non-CFC**



FC1 is a foreign corporation that is owned, directly and indirectly, solely by foreign persons. DC is a domestic corporation that is unrelated to FC1. DC owns all of the outstanding stock of FC2, a foreign corporation. Thus, DC is a section 1248 shareholder with respect to FC2, and FC2 is a controlled foreign corporation. The section 1248 amount attributable to the stock of FC2 held by DC is \$20. In a section 368(a)(1)(C) reorganization, FC1 acquires all of the assets and assumes all of the liabilities of FC2 in exchange for FC1 voting stock. The FC1 voting stock received does not represent more than 50 percent of the voting power or value of FC1's stock. FC2 distributes the FC1 stock to DC, and the FC2 stock held by DC is canceled.

FC1 is not a controlled foreign corporation immediately after the exchange. As a result, DC must include in income, as a deemed dividend from FC2, the section 1248 amount (\$20) attributable to the FC2 stock that DC exchanged.