

**Reg. 1.951-1(b)(2), Example 5**

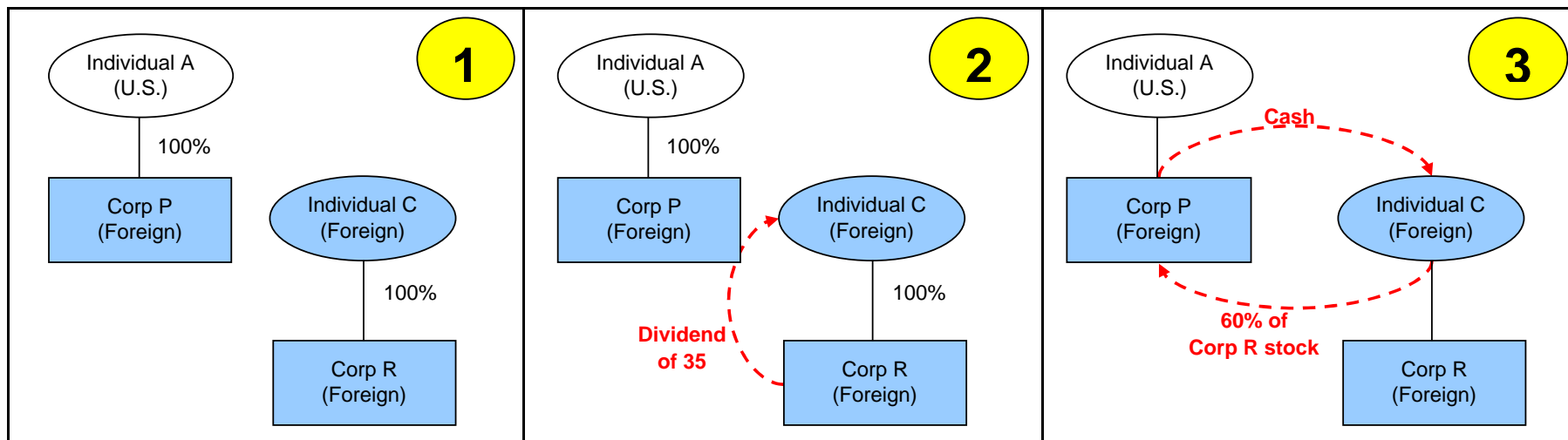
**Subpart F Income:  
CFC for Last Part of Year**

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**Jan. 1, 1963**

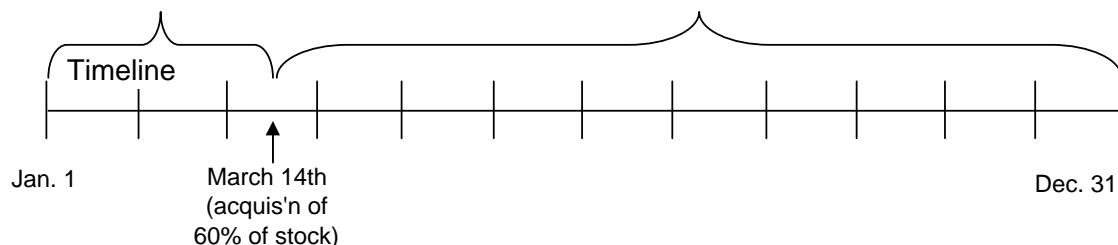
**Pre-March 14, 1963**

**March 14, 1963**



Non-CFC for 20% of calendar year

CFC for 80% of calendar year



At the beginning of 1963, A, a United States shareholder, owns 100% of the stock of P, a controlled foreign corporation, and C, a nonresident alien, owns 100% of the stock of R, a foreign corporation. On March 14, 1963, Corp P acquired 60% of Corp R. A, Corp P, and Corp R use the calendar year as a taxable year. Thus, Corp R is a controlled foreign corporation for the period March 15, 1963, through December 31, 1963. For 1963, Corp R derives \$100 of subpart F income and has \$100 of earnings and profits. Before Corp P's acquisition of such stock, Corp R had distributed a dividend of \$35 to C in 1963. A must include \$36 in his gross income for 1963 under section 951(a)(1)(A)(i) ( $100 \times 80\%$  of year = 80 [sub F for all stock];  $80 \times 60\%$  of stock = 48 [sub F related to 60% of stock]; reduced by dividends paid of 12 [lesser of 35 or  $100 \times 20\% \times 60\% = 12$ ; See Reg. 1.951-1(b)(1)(ii)]).

**Dec. 31, 1963**

