

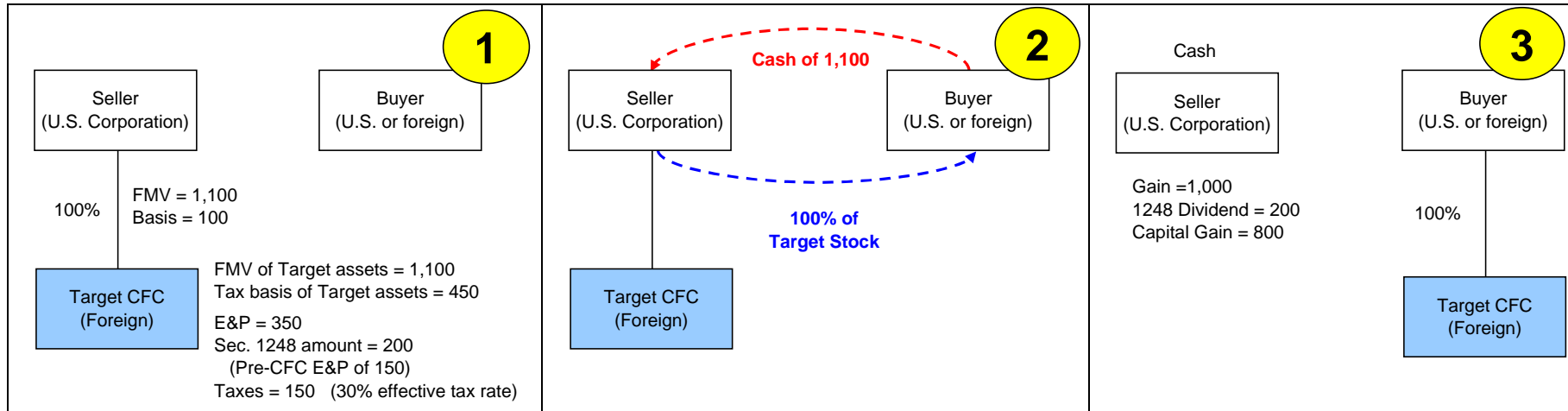
# U.S. Corporate Seller of CFC

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## Initial Structure

## Sale of Target

## Ending Point



### Assumptions

1. All amounts in U.S. dollars
2. All income (ordinary and capital gains) taxed at 35%
3. All foreign source income is in the general limitation basket
4. Seller has no other income
5. All E&P and taxes are in post-1986 pools
6. No AMT tax is due
7. Seller elects to claim foreign tax credits
8. No foreign taxes are paid on the sale

|   |  |                        |                     |         |     |
|---|--|------------------------|---------------------|---------|-----|
| Section 902 deemed paid foreign taxes = | $\frac{\text{Dividend}}{\text{Pool of E\&P}}$                  | X Tax Pool =           | $\frac{200}{350}$   | X 150 = | 86  |
| Foreign Tax Credit limitation =         | $\frac{\text{Foreign Source Income}}{\text{Worldwide Income}}$ | X Tentative U.S. Tax = | $\frac{286}{1,086}$ | X 380 = | 100 |

Worldwide Income Excluding Gross-up = 1,000  
 Sec. 78 Gross-up = 86  
 Worldwide Income Including Gross-up = 1,086  
 Foreign source income = 286 (200 + 86)  
 Tentative U.S. tax = 380 (1,086 X 35%)

Tentative U.S. tax 380  
 Less: Lesser of foreign taxes  
 deemed paid or FTC limitation (86)  
 Net U.S. tax due 294

Note that if E&P and the section 1248 amount both equaled 350, then the net U.S. tax due would be 230.