

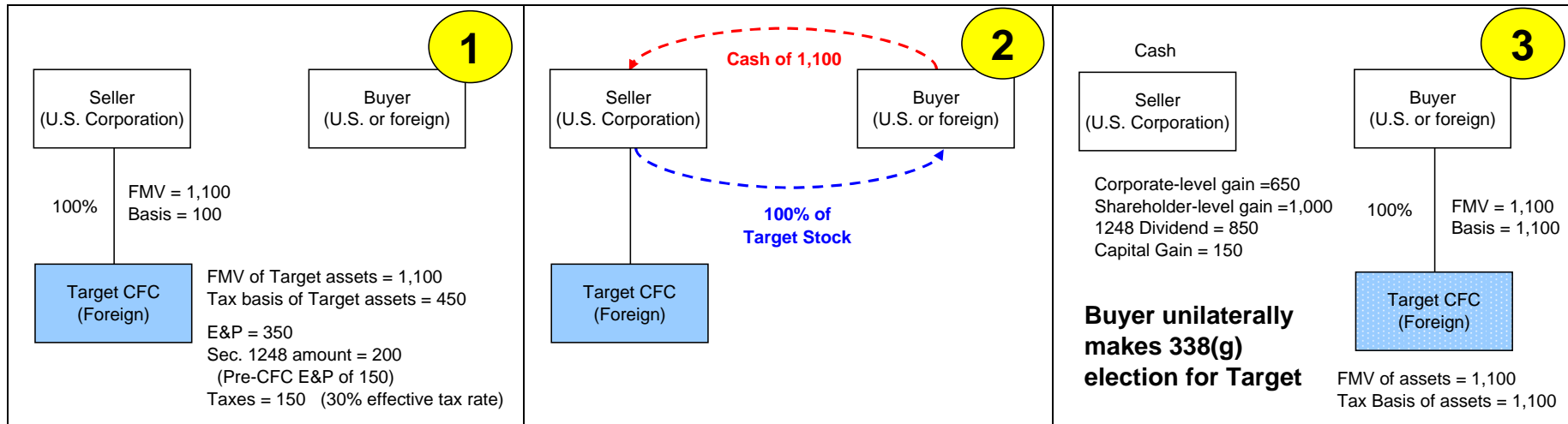
# U.S. Corporate Seller of CFC - 338(g) Election

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## Initial Structure

## Sale of Target

## 338 Election / 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 subpart F income triggered on 338 election
9. No foreign taxes are paid on the sale

$\text{Section 902 deemed paid foreign taxes} = \frac{\text{Dividend}}{\text{Pool of E\&P}} \times \text{Tax Pool} = \frac{850}{1,000} \times 150 = 128$
$\text{Foreign Tax Credit limitation} = \frac{\text{Foreign Source Income}}{\text{Worldwide Income}} \times \text{Tentative U.S. Tax} = \frac{328}{1,128} \times 395 = 115$

Worldwide Income Excluding Gross-up = 1,000	Tentative U.S. tax	395
Sec. 78 Gross-up = 128	Less: Lesser of foreign taxes	
Worldwide Income Including Gross-up = 1,128	deemed paid or FTC limitation	(115)
Foreign source income = 328 (200 + 128, see Sec. 338(h)(16))		280
Tentative U.S. tax = 395 (1,128 X 35%)	Net U.S. tax due	280