

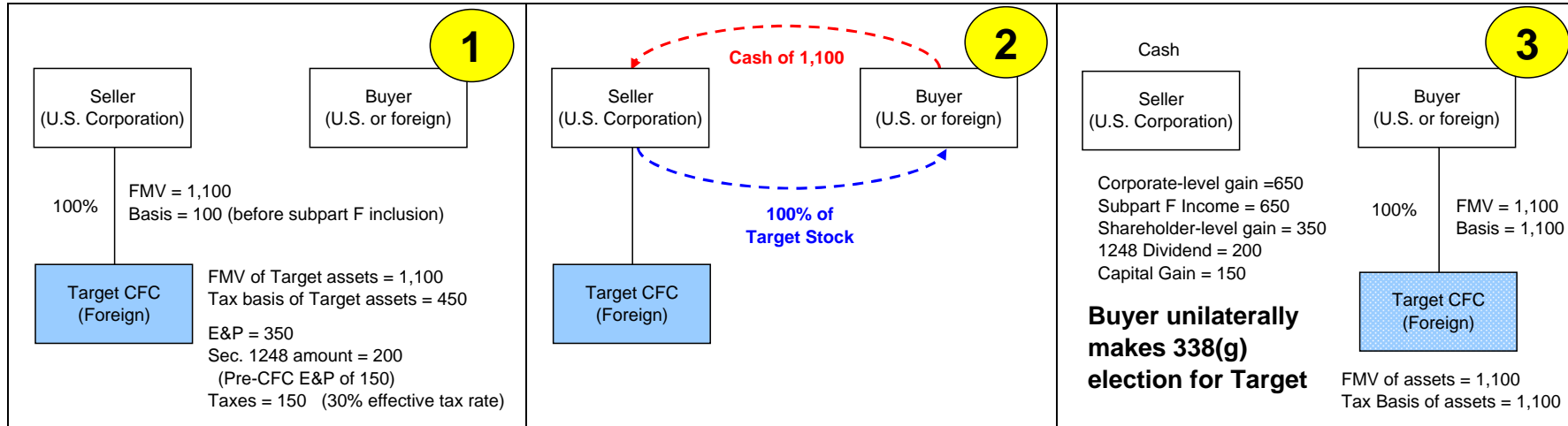
U.S. Corporate Seller of CFC - 338(g) Election & Subpart F Income

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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. All gain on 338 election is subpart F income
9. 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 =	$\frac{850}{1,000}$	X 150 =	128
Foreign Tax Credit limitation =	$\frac{\text{Foreign Source Income}}{\text{Worldwide Income}}$	X Tentative U.S. Tax =	$\frac{978}{1,128}$	X 395 =	342

Foreign source income in these circumstances is not perfectly clear. See section 338(h)(16).

Worldwide Income Excluding Gross-up = 1,000
 Sec. 78 Gross-up = 128
 Worldwide Income Including Gross-up = 1,128
 Foreign source income = 978 (850 + 128, see Sec. 338(h)(16))
 Tentative U.S. tax = 395 (1,128 X 35%)

Tentative U.S. tax	395
Less: Lesser of foreign taxes deemed paid or FTC limitation	(128)
Net U.S. tax due	267