

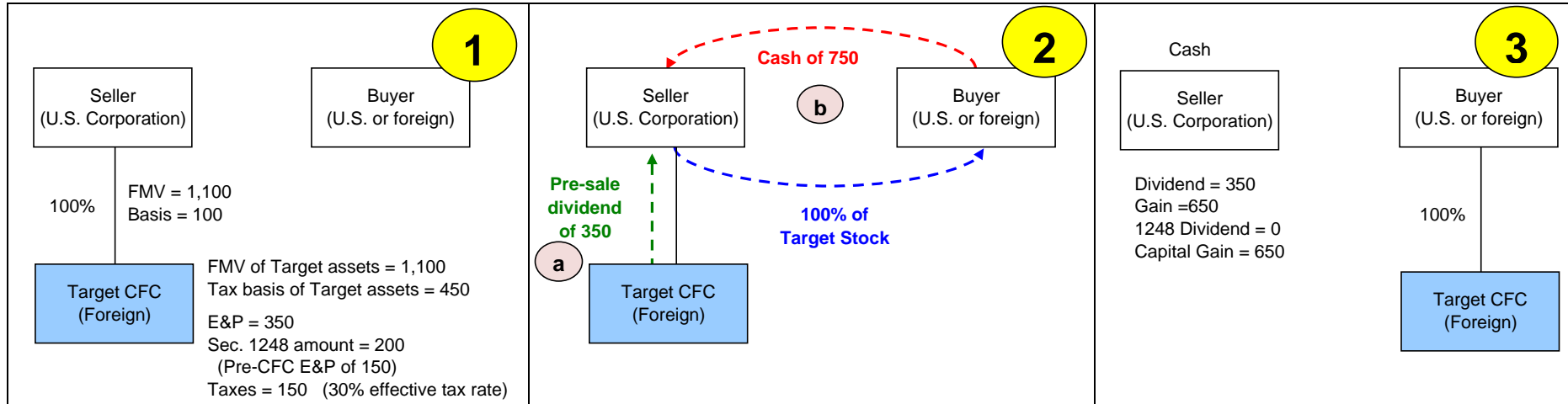
U.S. Corporate Seller of CFC - Pre-Sale Distribution

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Initial Structure

Pre-Sale Dividend & 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. Pre-sale distribution not treated as part of sales proceeds
9. No foreign taxes are paid on the sale

$\text{Section 902 deemed paid foreign taxes} = \frac{\text{Dividend}}{\text{Pool of E\&P}} \times \text{Tax Pool} = \frac{350}{350} \times 150 = 150$
$\text{Foreign Tax Credit limitation} = \frac{\text{Foreign Source Income}}{\text{Worldwide Income}} \times \text{Tentative U.S. Tax} = \frac{500}{1,150} \times 403 = 175$

Worldwide Income Excluding Gross-up = 1,000
 Sec. 78 Gross-up = 150
 Worldwide Income Including Gross-up = 1,150
 Foreign source income = 500 (350 + 150)
 Tentative U.S. tax = 403 (1,150 X 35%)

Tentative U.S. tax	380
Less: Lesser of foreign taxes deemed paid or FTC limitation	(150)
Net U.S. tax due	230