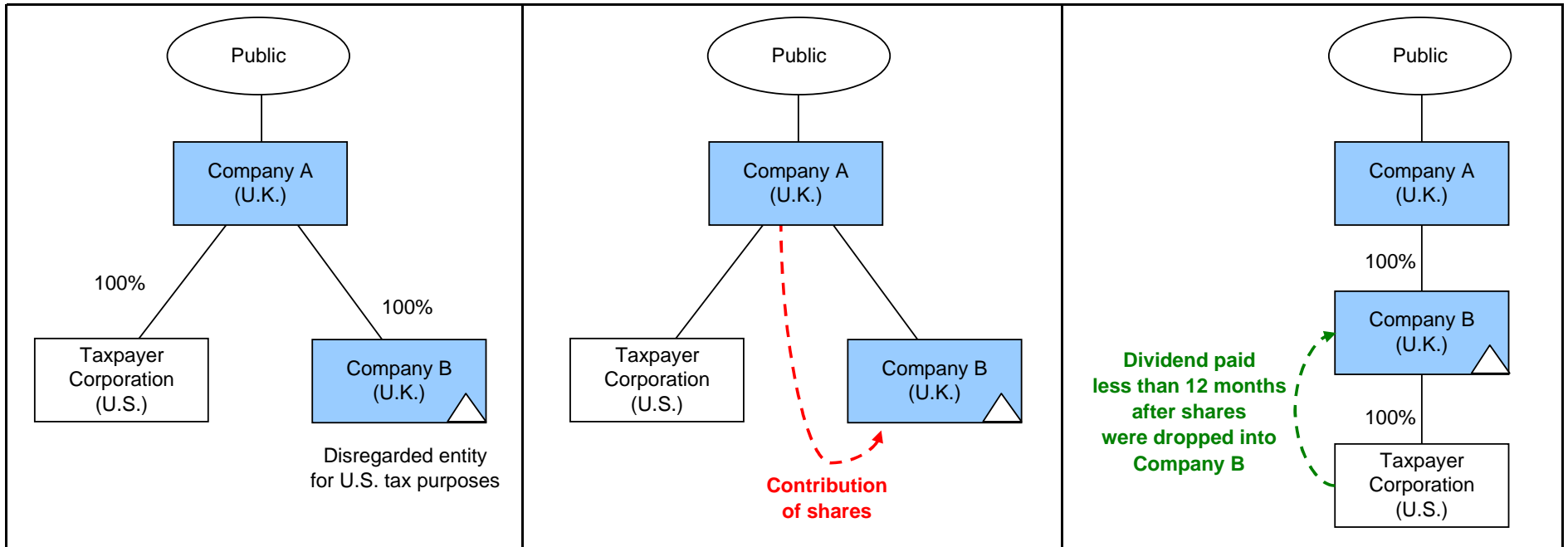


**12 Month Ownership Test Under US-UK
Tax Treaty With Disregarded Entity**

Initial Structure

Contribution

Dividend Payment



Company A is a U.K. corporation whose principal class of shares is traded on the London Stock Exchange. Company A held 100% of the issued and outstanding capital stock of Taxpayer, a domestic corporation for more than 12 months. Company A contributed Taxpayer's stock to Company B, a wholly-owned U.K. corporation. Company B had elected under Treas. Reg. § 301.7701-3 to be disregarded as an entity separate from its owner (i.e., Company A) for U.S. federal income tax purposes. Following the contribution Company B holds 100% of the issued and outstanding capital stock of Taxpayer. On a date less than 12 months after the contribution, Taxpayer declared and paid a dividend. The issue was whether the 12 month ownership test under Article 10(3)(a) of the US-UK Income Tax Treaty was met.

Article 10(3)(a) provides that dividends are not taxable in the source State if the beneficial owner is a company resident in the other Contracting State that has owned shares representing 80% or more of the voting power of the company paying the dividends for a 12-month period ending on the date the dividend is declared (the "12 month ownership test") and certain other requirements are satisfied. The ruling held that the dividend was derived and beneficially owned by Company B, a corporation disregarded as an entity separate from its owner and that the dividend is described in paragraph 3(a) of Article 10 of the Treaty.

△ Means "flow-thru" for U.S. tax purposes.