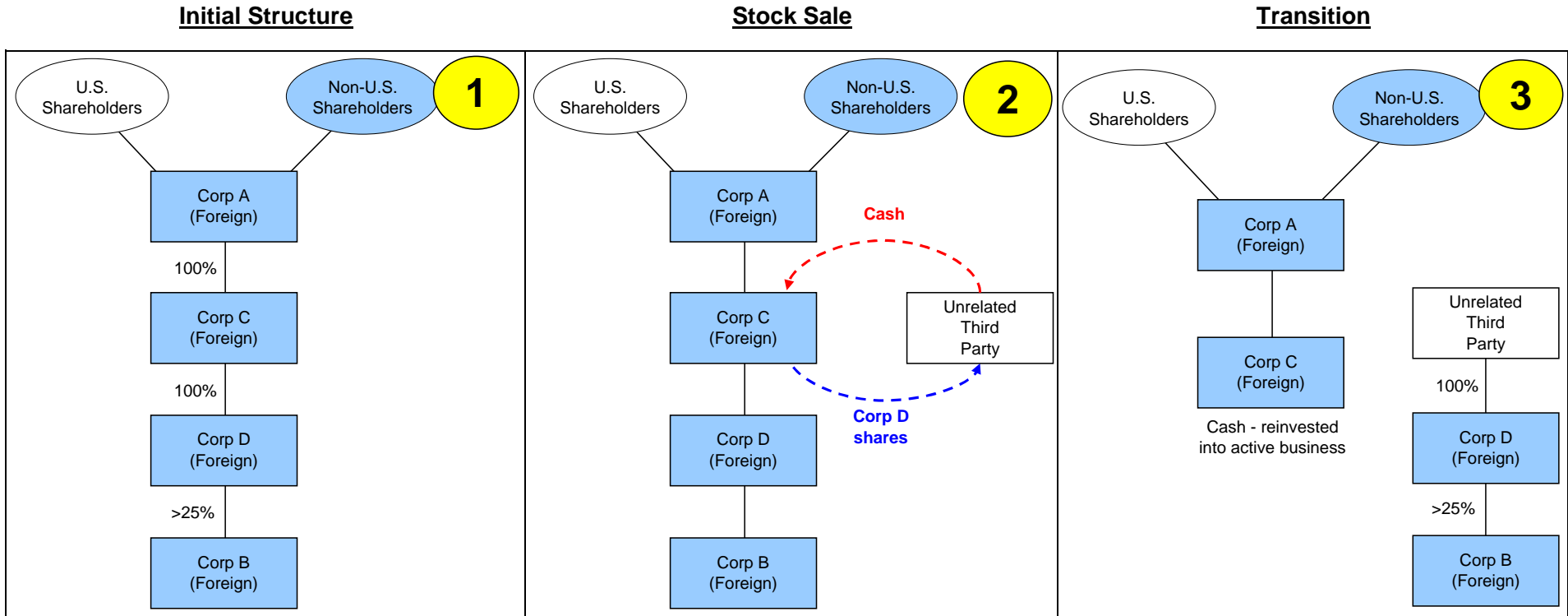


PFIC 25% Subsidiary Look-Thru & Change of Business Exceptions



Corp A, a foreign corporation, owns 100% of Corp C. Corp C, a foreign corporation, owns 100% of Corp D. Corp D, a foreign corporation, owns a greater than 25% interest in the value of Corp B, a foreign corporation engaged in Business X. On Date 1, the stock of Corp D was sold by Corp C to an unrelated party for an amount equaling the Sales Proceeds. Corp A intends to invest a portion of the Sales Proceeds in assets that can be used in Business X.

Corp A has a substantial U.S. shareholder base. Applying the look-through rule of section 1297(c), Corp A is treated as if it received directly the income from the sale and is treated as if it holds the Sales Proceeds. Due to the Sales Proceeds, if tested quarterly pursuant to the provisions of Notice 88-22, Corp A may hold 50% or more passive assets in either Year 1 or Year 2, but is unlikely to hold 50% or more passive assets in both years. In the absence of an exception, Corp A may therefore qualify as a passive foreign investment company (PFIC) in Year 1 or Year 2 with respect to its U.S. shareholders under the asset test provided in section 1297(a)(2).

Under section 1297(c), the disposition of Corp B stock will be treated, for purposes of section 1297(a), as a disposition of Corp A's proportionate share of the assets of Corp B attributable to that stock. For purposes of section 1298(b)(3), the disposition of Corp B stock will be treated as a disposition of an active trade or business by Corp A. Section 1298(b)(3) may be applied to except Corp A from PFIC status in either Year 1 or Year 2, but not both years.