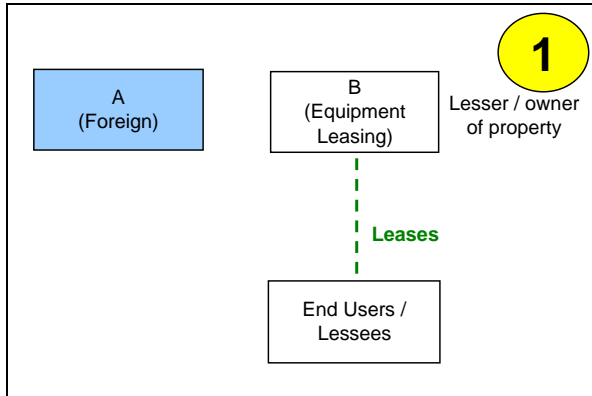
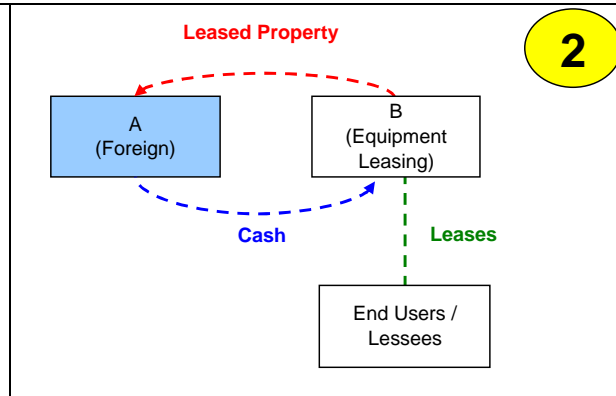


Nonapplication of Section 482 to Lease Stripping Transaction

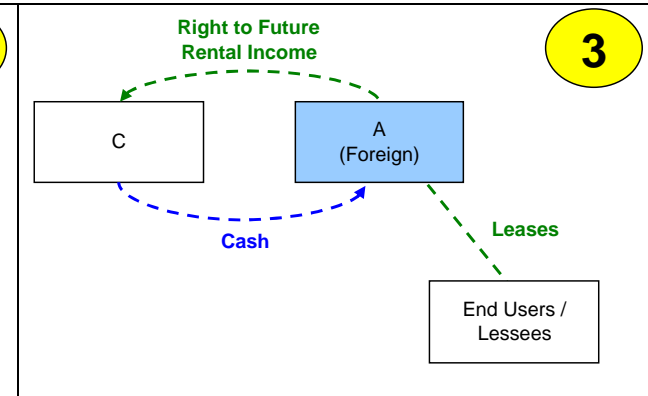
Initial Structure



Purchase of Leased Property



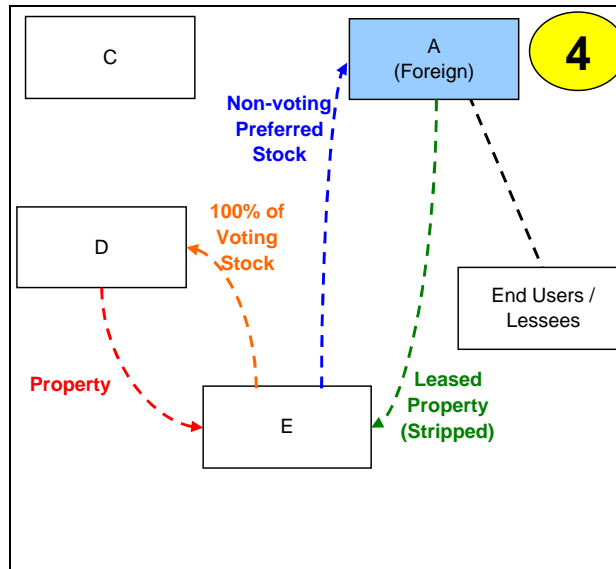
Stripping of Income



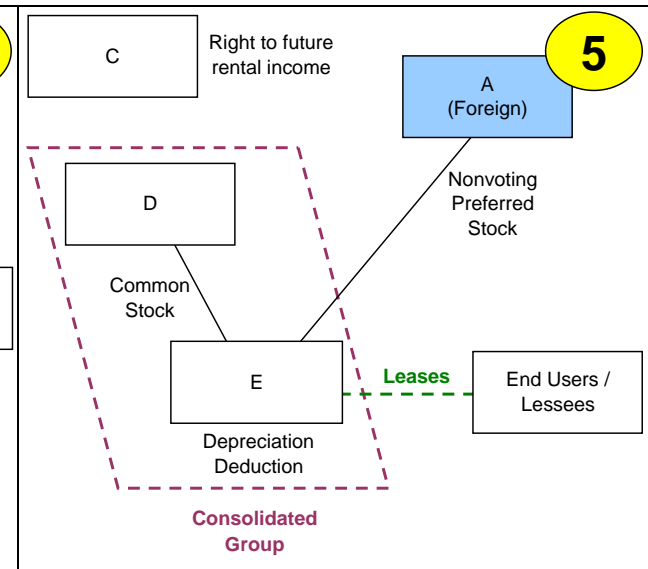
A, a foreign corporation, purchases property from B, an equipment leasing company. At the time of the purchase, the property was subject to pre-existing end user leases with varying terms extending over future years. A is not engaged in a trade or business within the U.S. and is exempt from U.S. taxation on U.S. source income from the end user leases under an applicable income tax treaty. A sells the right to all future rental income attributable to the end user leases to C.

D, a domestic corporation, is the parent of an affiliated group of corporations that files a U.S. consolidated income tax return. After the rights to the future rental income have been sold to C, A transfers the leased property subject to the end user leases to E, a domestic corporation, in a purported section 351 transaction entered into with D where immediately after the transaction, A has non-voting preferred stock in E and D has 100% of the voting stock of E. E is a member of the D consolidated group after the purported section 351 transaction. Subsequent depreciation deductions from the leased property are reflected on the consolidated return for the D group.

Purported 351



Ending Point



The facts do not support the application of section 482 to allow the allocation among the parties of the income and deductions arising from the property that is the subject of the lease stripping transaction. Reg. 1.482-1(i)(4). No inference is intended concerning the treatment of lease stripping transactions for Federal income tax purposes. The Internal Revenue Service will challenge lease stripping transactions on other legal grounds. See Notice 2003-55.