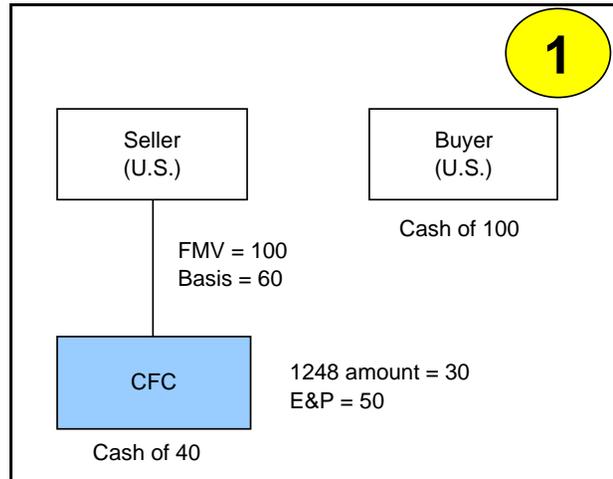
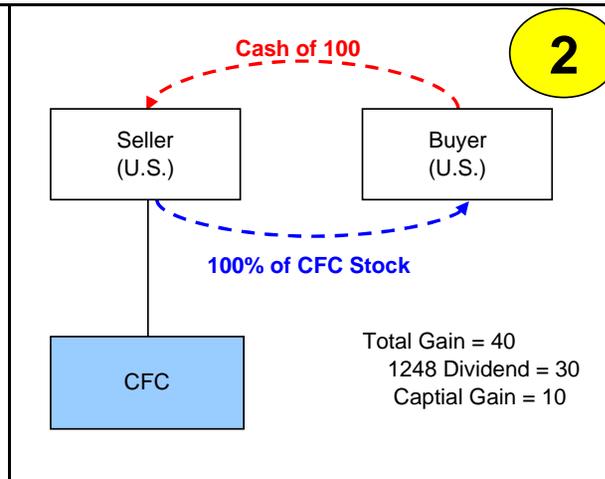


**Section 959(e):
Section 1248 PTI Account**

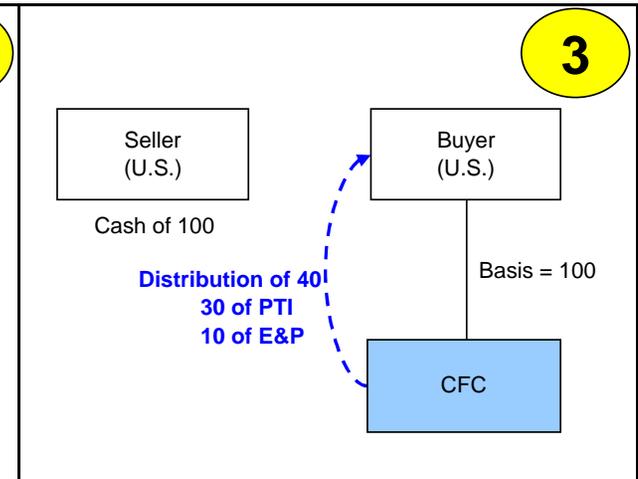
Initial Structure



Sale of CFC Shares



Distribution to Buyer



The amounts above were not included in the rev. rul., but have been added for illustrative purposes.

Rev. Rul. 71-388 held that the E&P of a CFC are not decreased by the amount of gain from the sale of its stock that is treated as a dividend under section 1248. Rev. Rul. 83-182 suspended that part of Rev. Rul. 71-388, pending resolution of the issue. The issue was resolved by the enactment of Section 959(e) as part of the Tax Reform Act of 1984. Section 959(e) provides that any amount included in the gross income of any person as a dividend by reason of subsection 1248(a) or (f) will be treated for purposes of section 959(a) [previously taxed income] as an amount included in the gross income of such person under section 951(a)(1)(A).

Thus, if a selling shareholder includes an amount in gross income as a dividend under section 1248, the E&P of the CFC are not reduced at the time of the recognition of the dividend amount. Instead, under section 959(e), an account under section 951(a)(1)(A) in the amount of the dividend is established on behalf of the buying shareholder as if that amount had been included in gross income under section 951(a)(1)(A). The E&P of the CFC are reduced under section 959(d) at the time of the actual distribution.

The selling shareholder is allowed a foreign tax credit under section 902 of the Code if it is a domestic corporation that, on the date of the sale or exchange, directly owns at least 10 percent of the voting stock of the foreign corporation.

Ending Point

