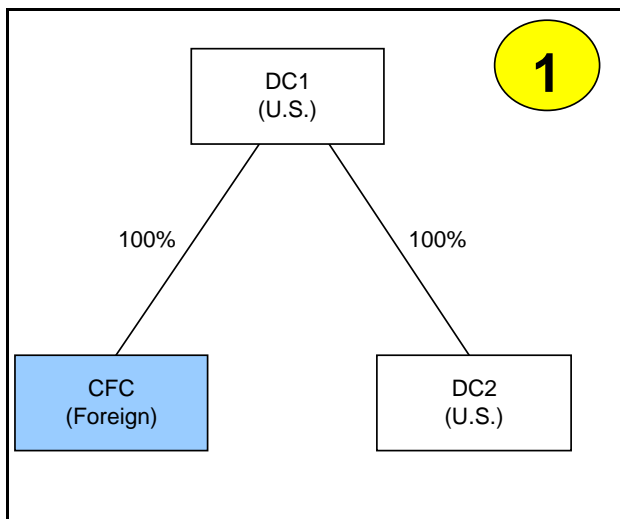


**Reg. 1.1248-8(b)(7), Example 3**

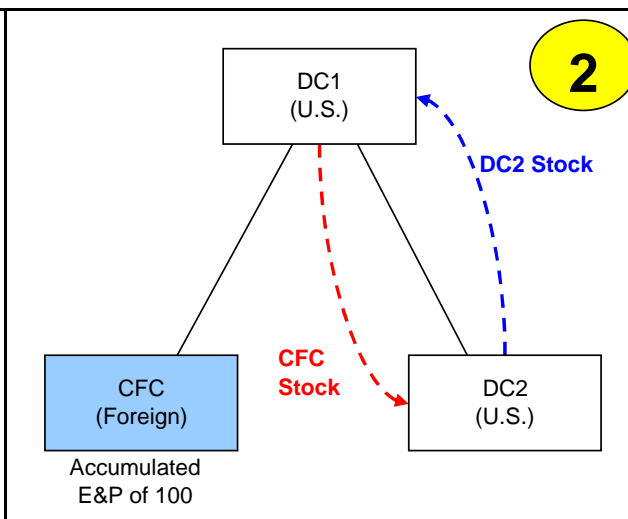
**Section 1248 Gain - Sale After  
351 Exchange of CFC Stock  
to U.S. Subsidiary**

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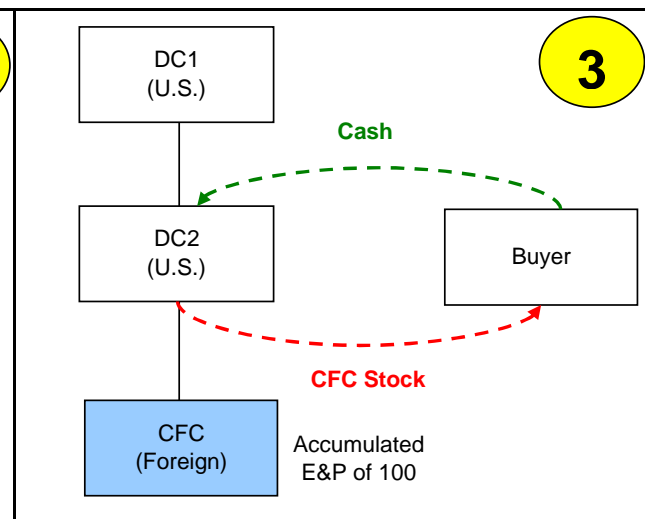
**Initial Structure (Jan. 1, Year 1)**



**351 Exchange (Dec. 31, Year 2)**



**Sale of Stock (Dec. 31, Year 4)**



DC1, a domestic corporation, has owned all of the stock of CFC, a foreign corporation, since CFC's formation on January 1, year 1. DC1 has also owned all the stock of DC2, a domestic corporation, since DC2's formation on January 1, year 1. On December 31, year 2, DC1 contributes the stock of CFC to DC2 in exchange for stock in DC2 in a restructuring transaction that is an exchange described in section 351. On December 31, year 2, CFC has \$100 of accumulated earnings and profits. DC2 has a basis in the CFC stock determined under section 362, and is considered to have held the CFC stock since January 1, year 1, pursuant to section 1223(2). On December 31, year 4, when the accumulated earnings and profits of CFC are still \$100, DC2 sells its CFC stock.

Even though DC2 did not hold the stock of CFC during the time CFC accumulated the earnings and profits, \$100 of accumulated earnings and profits of CFC is attributable to the stock of CFC sold by DC2.

**Ending Point**

