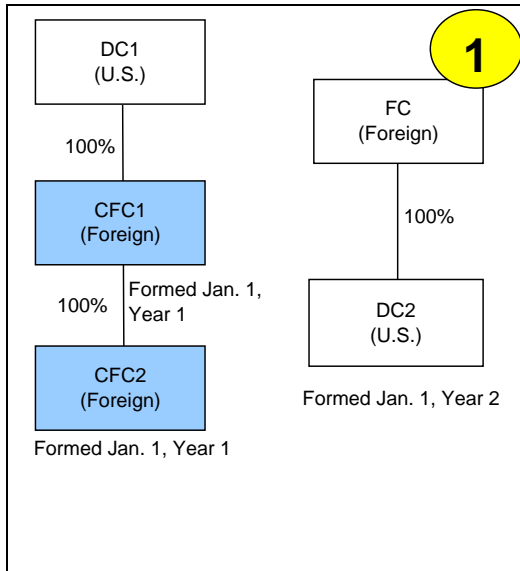
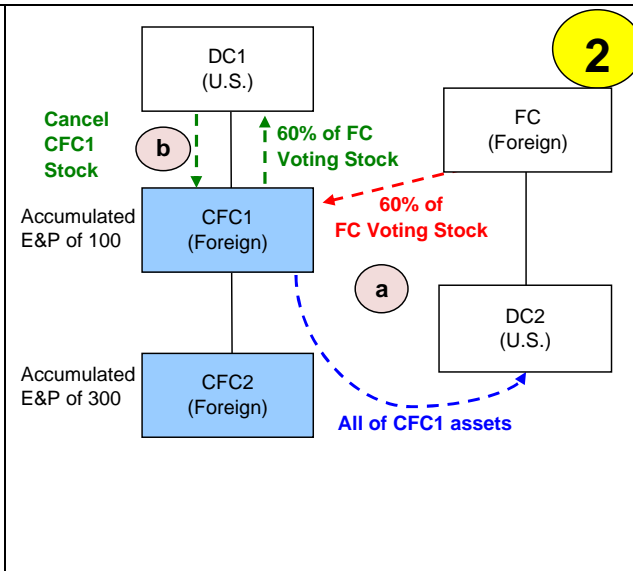


**Section 1248 Gain - Sale After Triangular C Reorganization**

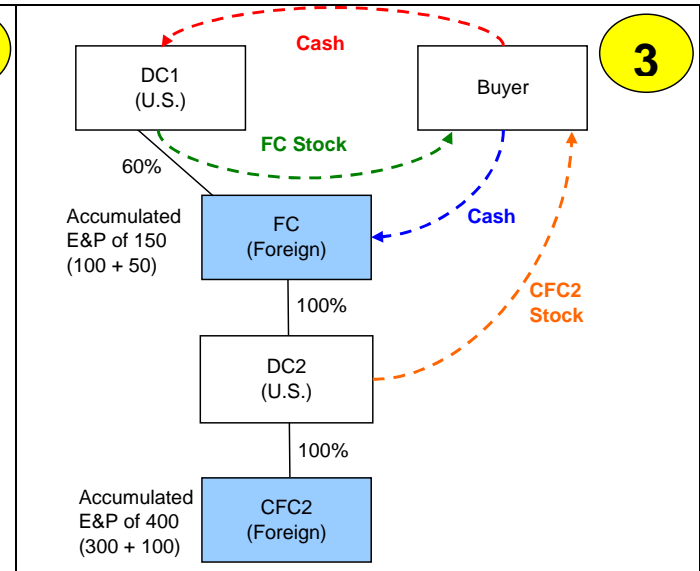
**Initial Structure**



**Triangular C Reorganization (Dec. 31, Year 3)**



**Sales of CFCs (Dec. 31, Year 5)**



DC1, a domestic corporation, has owned all the stock of CFC1, a foreign corporation, since its formation on Jan. 1, year 1. CFC1 has owned all the stock of CFC2, a foreign corporation, since its formation on Jan. 1, year 1. FC, a foreign corporation that is not a controlled foreign corporation, has owned all of the stock of DC2, a domestic corporation, since its formation on Jan. 1, year 2. On Dec. 31, year 3, pursuant to a restructuring transaction that was a triangular reorganization described in section 368(a)(1)(C), CFC1 transfers all of its assets, including the CFC2 stock, to DC2 in exchange for 60% of the voting stock of FC. CFC1 transferred the voting stock of FC to DC1 and the CFC1 stock was cancelled. Pursuant to section 1223(1), DC1 is considered to have held the stock of FC since Jan. 1, year 1. Under section 1223(2), DC2 is considered to have held the stock of CFC2 since Jan. 1, year 1. On Dec. 31, year 3, CFC1 has \$100 of earnings and profits, CFC2 has \$300 of earnings and profits, and FC has \$200 of earnings and profits. DC1 includes the \$100 all earnings and profits amount attributable to its CFC1 stock in income as a deemed dividend under Reg. 1.367(b)-3 upon the exchange of CFC1 stock for FC stock. Pursuant to the lower tier earning exclusion of Reg. 1.367(b)-2(d)(3)(ii), that amount does not include the \$300 of earnings and profits of CFC2. From Jan. 1, year 4, until Dec. 31, year 5, FC (now a CFC) accumulates an additional \$50 of earnings and profits. From Jan. 1, year 4 until Dec. 31, year 5, CFC2 accumulates an additional \$100 of earnings and profits. On Dec. 31, year 5, DC1 sells its stock in FC and DC2 sells its stock in CFC2.

There is \$30 of earnings and profits attributable to the stock of FC sold by DC1. This amount consists of 60% of the \$50 of earnings and profits accumulated by FC after the restructuring transaction, and none of the earnings and profits accumulated by CFC1, CFC2, or FC before the restructuring transaction. There is \$400 of earnings and profits attributable to the stock of CFC2 sold by DC2. This amount consists of all of the earnings and profits accumulated by CFC2 during DC2's section 1223(2) holding period.

**Ending Point**

