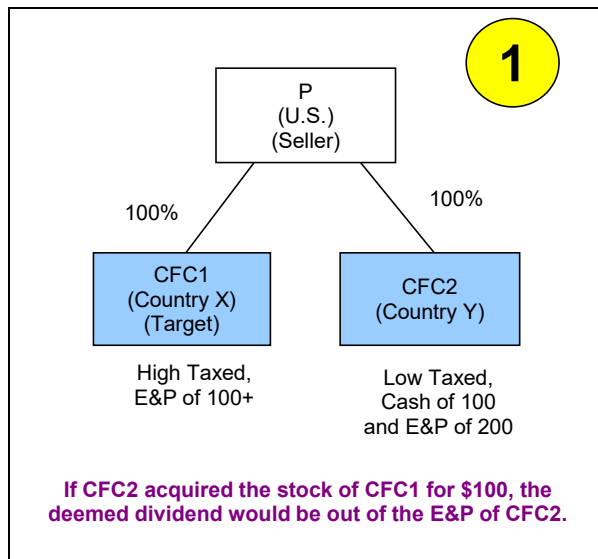


Temp. Reg. 1.304-4(c), Example 1

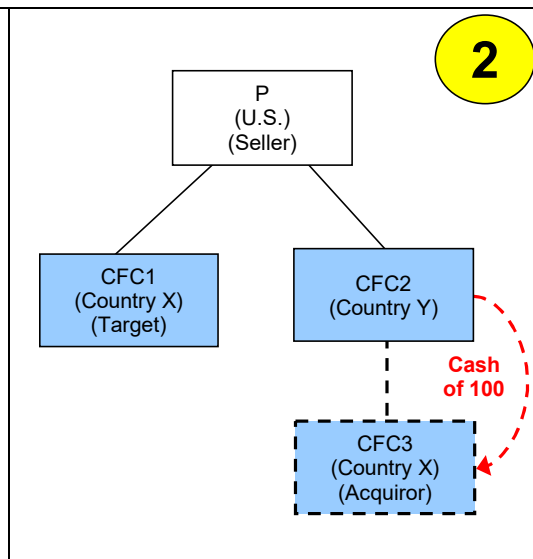
Section 304 Anti-Abuse Rule - Deemed Acquiror

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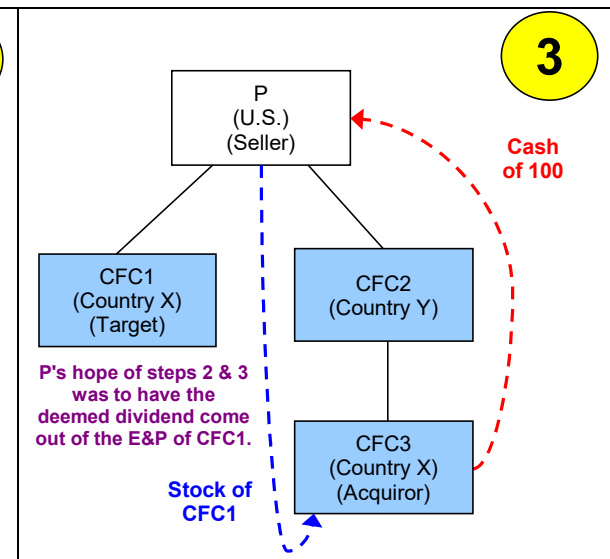
Initial Structure



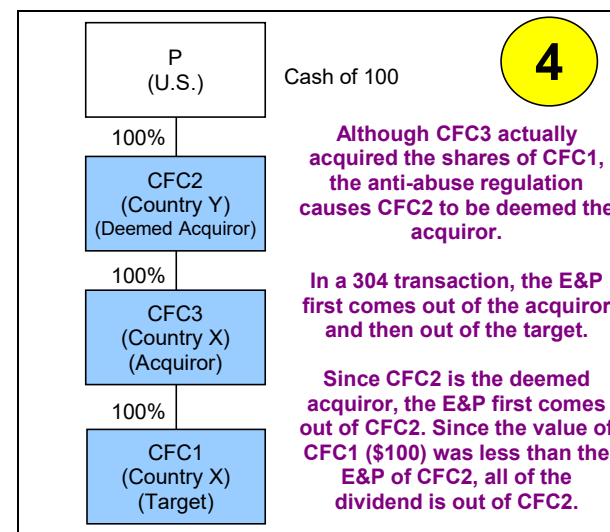
Newco Formation



Related Stock Sale



Ending Point



P, a domestic corporation, wholly owns CFC1, a controlled foreign corporation with substantial accumulated E&P. CFC1 is organized in Country X, which imposes a high rate of tax on the income of CFC1. P also wholly owns CFC2, a controlled foreign corporation with accumulated E&P of \$200x. CFC2 is organized in Country Y, which imposes a low rate of tax on the income of CFC2. P wishes to own all of its foreign corporations in a direct chain and to repatriate the cash of CFC2. In order to avoid having to obtain Country X approval for the acquisition of CFC1 (a Country X corporation) by CFC2 (a Country Y corporation) and to avoid the dividend distribution from CFC2 to P that would result if CFC2 were the acquiring corporation, P causes CFC2 to form CFC3 in Country X and to contribute \$100x to CFC3. CFC3 then acquires all of the stock of CFC1 from P for \$100x. Because a principal purpose for creating, organizing, or funding CFC3 (acquiring corporation) is to avoid the application of section 304 to CFC2 (deemed acquiring corporation), under Reg. 1.304-4(b)(1), for purposes of determining the amount of the \$100x distribution constituting a dividend (and source thereof) under section 304(b)(2), CFC2 is treated as acquiring the stock of CFC1 (issuing corporation) from P for \$100x. As a result, P receives a \$100x distribution out of the E&P of CFC2 to which section 301(c)(1) applies.

"issuing" means "target"