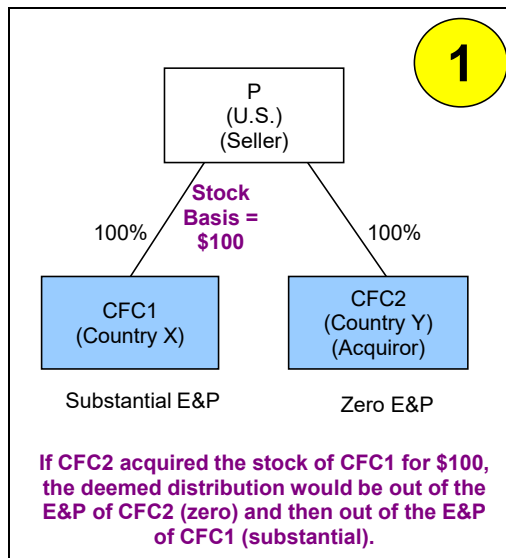


**Temp. Reg. 1.304-4(c),
Example 2**

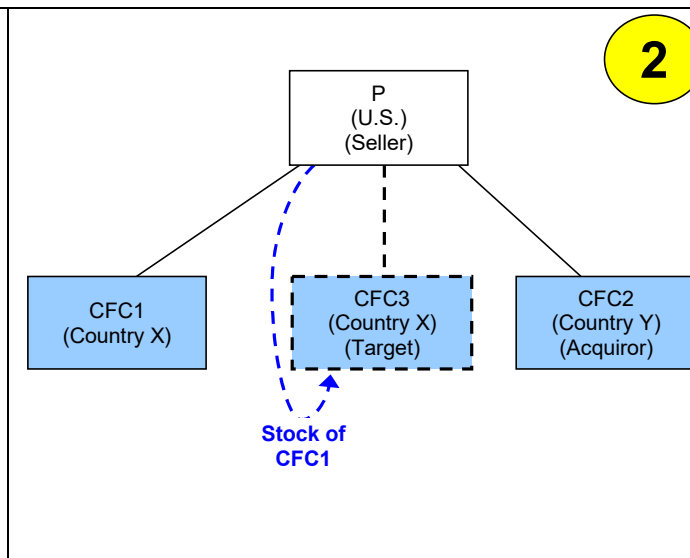
**Section 304 Anti-Abuse Rule -
Create Parent With No E&P**

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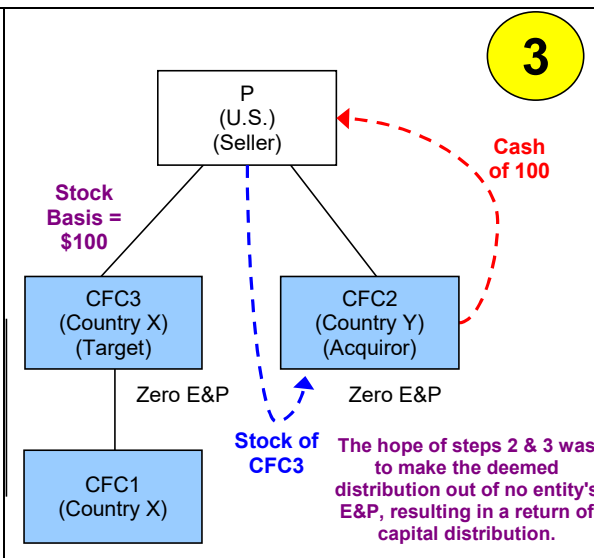
Initial Structure



Newco Formation & Contribution

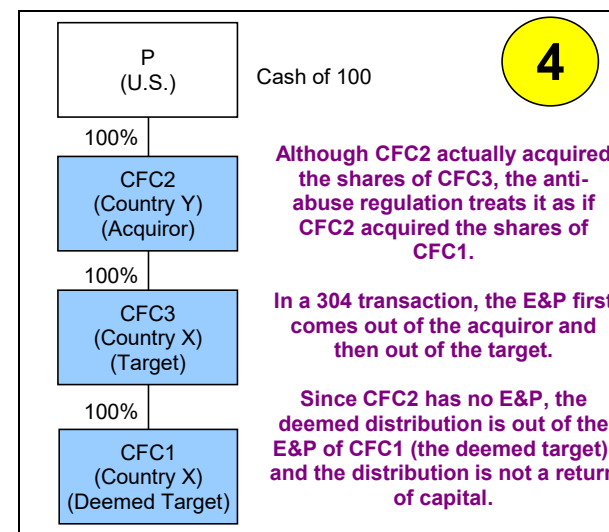


Related Stock Sale



P, a domestic corporation, wholly owns CFC1, a controlled foreign corporation with substantial accumulated E&P. The CFC1 stock has a basis of \$100x. CFC1 is organized in Country X. P also wholly owns CFC2, a controlled foreign corporation with zero accumulated E&P. CFC2 is organized in Country Y. 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 a dividend distribution from CFC1 to P, P forms a new corporation (CFC3) in Country X and transfers the stock of CFC1 to CFC3 in exchange for CFC3 stock. P then transfers the stock of CFC3 to CFC2 in exchange for \$100x. Because a principal purpose for the transfer of the stock of CFC1 (deemed issuing corporation) by P to CFC3 (issuing corporation) is to avoid the application of section 304 to CFC1, under Reg. 1.604-4(b)(2), for purposes of determining the amount of the \$100x distribution constituting a dividend (and source thereof) under section 304(b)(2), CFC2 (acquiring corporation) is treated as acquiring the stock of CFC1 from P for \$100x. As a result, P receives a \$100x distribution out of the E&P of CFC1 to which section 301(c)(1) applies.

Ending Point



"issuing" means "target"

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