FS owns 100% of the FT stock. On July 1, 1994, P buys 60% of the FT stock. On December 31, 1994, P buys the remaining 40% of the FT stock and makes a section 338 election for FT. For tax year 1994, FT has earnings and profits of $1,000 (including earnings resulting from the deemed sale). The section 338 election results in $500 of subpart F income. As a result of the section 338 election, P must include in gross income the following amount under section 951(a)(1)(A) (see §1.951-1[b][2]):

FT's subpart F income for 1994 ......................................................... $500

Less: reduction under section 951(a)(2)(A) for period (1-1-94 through 7-1-94) during which FT is not a controlled foreign corporation ($500 X 182/365) ................................................................. 249.32

Subpart F income as limited by section 951(a)(2)(A) .............. $250.68

P’s pro rata share of subpart F income as determined under section 951(a)(2)(A) (60% X 250.68) ................................. $150.41