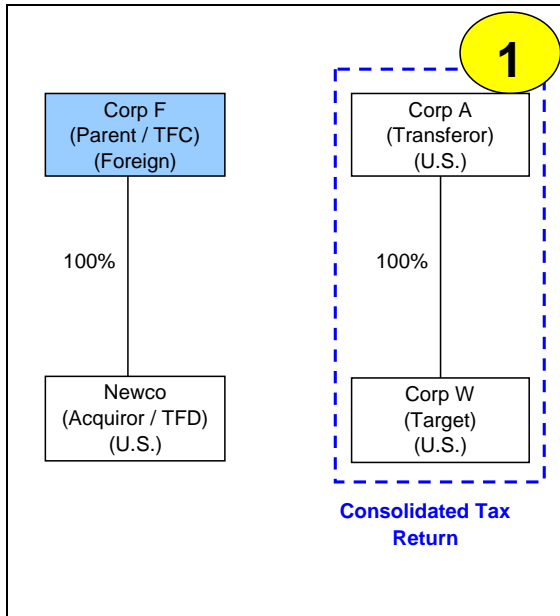


**Reg. 1.367(a)-3(d)(3), Example 4
368(a)(1)(A) / (a)(2)(D)**

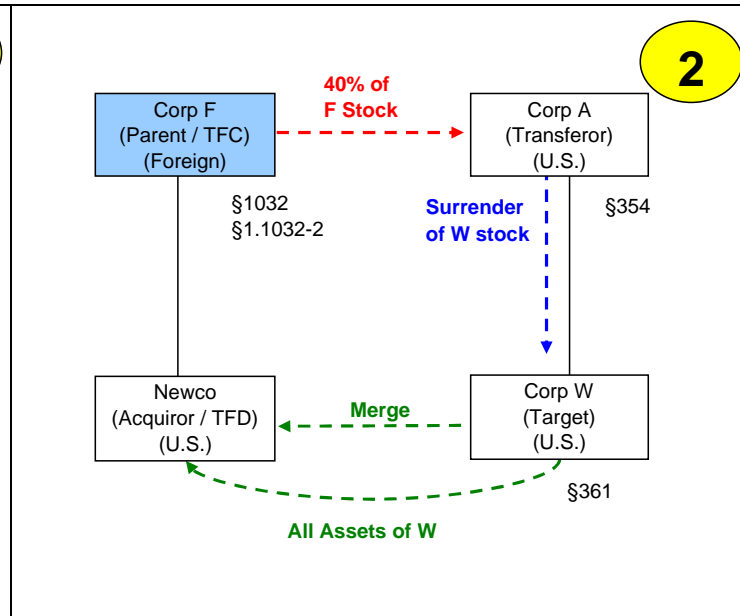
**Indirect Stock Transfer -
Forward Triangular Merger
& GRA Terminated**

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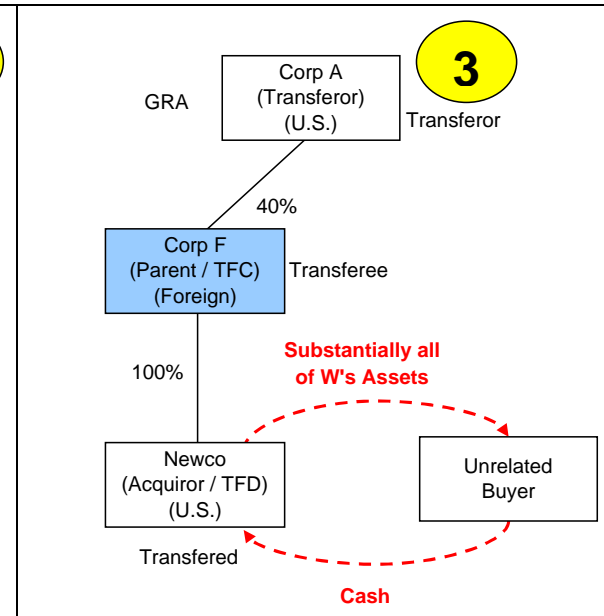
Initial Structure



Forward Triangular Merger



**Disposition of Substantially
All Assets (Year 3 of GRA)**



F, a foreign corporation, owns all the stock of Newco, a domestic corporation. A, a domestic corporation, owns all of the stock of W, also a domestic corporation. A and W file a consolidated Federal income tax return. A does not own any stock in F (applying the attribution rules of section 318, as modified by section 958(b)). In a reorganization described in sections 368(a)(1)(A) and (a)(2)(D), Newco acquires all of the assets of W, and A receives 40% of the stock of F in an exchange described in section 354. In the third year of the GRA, Newco disposes of substantially all of W's assets for cash and recognizes currently all of the gain on the disposition.

The reorganization is subject to the indirect stock transfer rules. A was a 5% shareholder of W and A did not receive more than 50% of F stock. In order to avoid gain recognition, A must file a 5 year GRA and comply with the necessary reporting requirements. If F disposes of Newco stock within the 5 year term of the GRA, then A must recognize gain in the year of the original transfer (or in the year of disposition if a Reg. 1.367(a)-8(b)(1)(vii) election was made).

Under Reg. 1.367(a)-8T(d)(2) the GRA is generally triggered when the transferred corporation disposes of substantially all of its assets. However, under the special rule contained in Reg. 1.367(a)-8T(g)(2), because A owned an amount of stock in W described in section 1504(a)(2) immediately before the transaction and Newco, the transferred corporation is a domestic corporation, the GRA is terminated and has no further effect.

Ending Point

