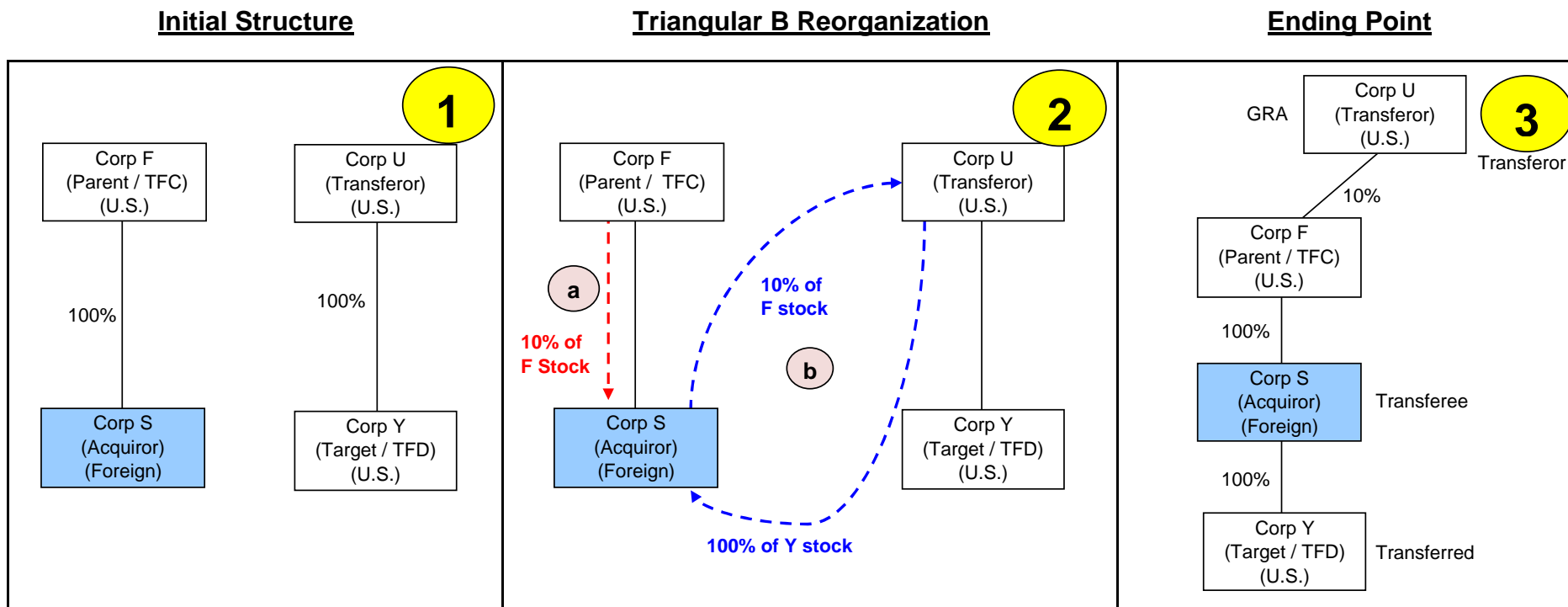


**Reg. 1.367(a)-3(d)(3), Example 5A
368(a)(1)(B)**

**Indirect Stock Transfer -
Triangular B Reorganization**

Copyright © 2007 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



F, a domestic corporation, owns all the stock of S, a foreign corporation. U, a domestic corporation, owns all of the stock of Y, also a domestic corporation. U does not own any of the stock of F (applying the attribution rules of section 318, as modified by section 958(b)). In a triangular reorganization described in section 368(a)(1)(B), S acquires all the stock of Y, and U receives 10% of the voting stock of F.

U's exchange of Y stock for stock of F, a domestic corporation in control of S, the foreign acquiring corporation, is treated as an indirect transfer of Y stock to a foreign corporation. U's exchange of Y stock for F stock will not be subject to section 367(a)(1) provided that all of the requirements of §1.367(a)-3(c)(1) are satisfied, including the requirement that U enter into a five-year gain recognition agreement. In satisfying the 50 percent or less ownership requirements of §1.367(a)-3(c)(1)(i) and (ii), U's indirect ownership of S stock (through its direct ownership of F) will determine whether the requirement of §1.367(a)-3(c)(1)(i) is satisfied and will be taken into account in determining whether the requirement of §1.367(a)-3(c)(1)(ii) is satisfied. S is treated as the transferee foreign corporation. If Y sold substantially all of its assets (within the meaning of section 368(a)(1)(C)), the gain recognition agreement would be terminated because U owned an amount of stock in Y described in section 1504(a)(2) immediately before the transaction and Y is a domestic corporation. See §1.367(a)-8T(g)(2). In addition, if F disposed of the stock of S in a taxable transaction the gain recognition agreement would be terminated if the principles of §1.367(a)-8T(g)(1)(i)(A) and (B) are satisfied.