USP, a domestic corporation, owns all of the stock of two foreign corporations, CFC1 and CFC2. USP's section 1248 amount with respect to CFC2 is $30. USP has a basis of $50 in its stock of CFC2; the stock of CFC2 has a fair market value of $100. In a transaction described in sections 351 and 368(a)(1)(B), USP transfers the stock of CFC2 to CFC1 in exchange for additional stock of CFC1 with a basis of $50. The transaction is subject to both sections 367(a) and (b). To qualify for nonrecognition treatment under section 367(a), USP enters into a gain recognition agreement for $50 under this section. Two years after the initial transfer, CFC1 sells the stock of CFC2 for $120. At the time of the sale, the section 1248 amount with respect to the CFC2 stock continues to be $30. The $70 of gain recognized on the sale of CFC2 stock would give rise to a $70 subpart F inclusion to USP under section 951(a)(1)(A).

CFC1's sale of CFC2 stock is a triggering event. As a result, USP must amend its return for the year of the initial transfer and include $50 in income (as well as pay any applicable interest), $30 of which will be recharacterized as a dividend pursuant to section 1248. As of the date of the initial transfer, CFC1 has a basis of $100 in its CFC2 stock, and USP has a basis in its CFC1 stock of $100. As a result of the sale of CFC2 stock by CFC1, USP will have a $20 subpart F inclusion under section 951(a)(1)(A).