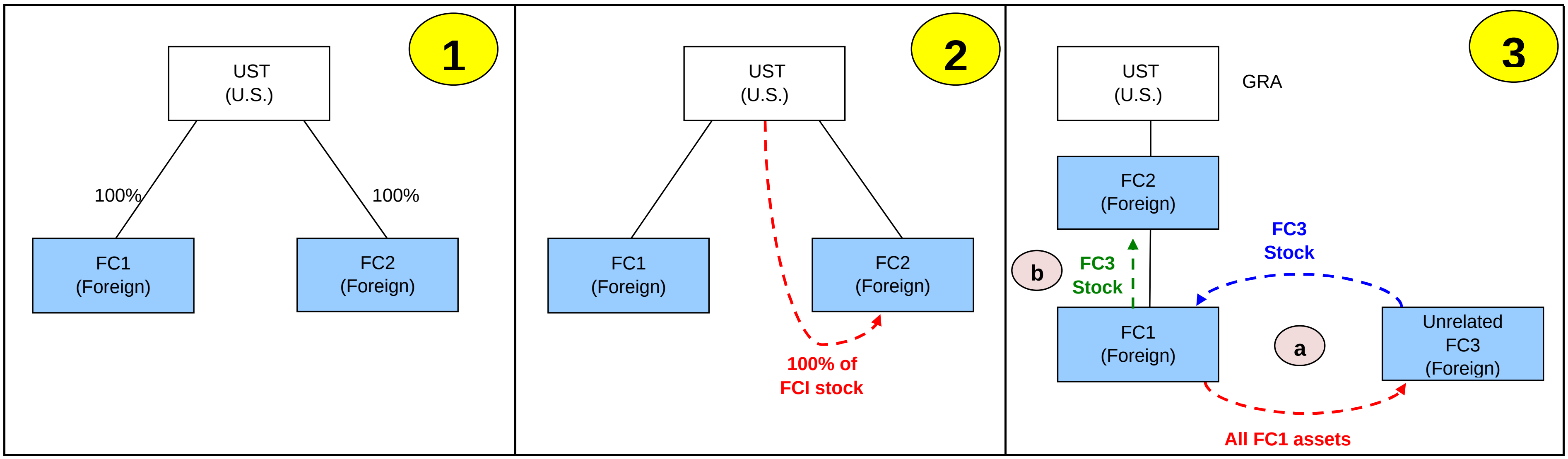
Temp. Reg. 1.367(a)-8T(e)(3)(iv), Ex. 3

Outbound 351 Followed by C Reorganization

Initial Structure | **Outbound 351 Exchange (Year 1)** | **C Reorganization (Year 4)**



UST, a domestic corporation, owns 100% of the stock of two foreign corporations, FC1 and FC2. In year 1, UST transfers 100% of the stock of FC1 to FC2 in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and UST enters into a gain recognition agreement. UST also complies with the notice requirement under §1.367(b)-1(c). In year 4, in a reorganization described in section 368(a)(1)(C), FC1 transfers all of its assets to FC3, an unrelated foreign corporation, in exchange for FC3 stock. FC1 transfers the FC3 stock to FC2 in exchange for the FC1 stock held by FC2 and the FC1 stock is canceled.

FC1's transfer of all of its assets to FC3 and FC2's exchange of FC1 stock for FC3 stock pursuant to the reorganization described in section 368(a)(1)(C) are triggering events, respectively. If, however, UST complies with the requirements contained in Treas. Reg. §1.367(a)-8T(e)(3)(iii), the transfers will not be triggering events.

Ending Point