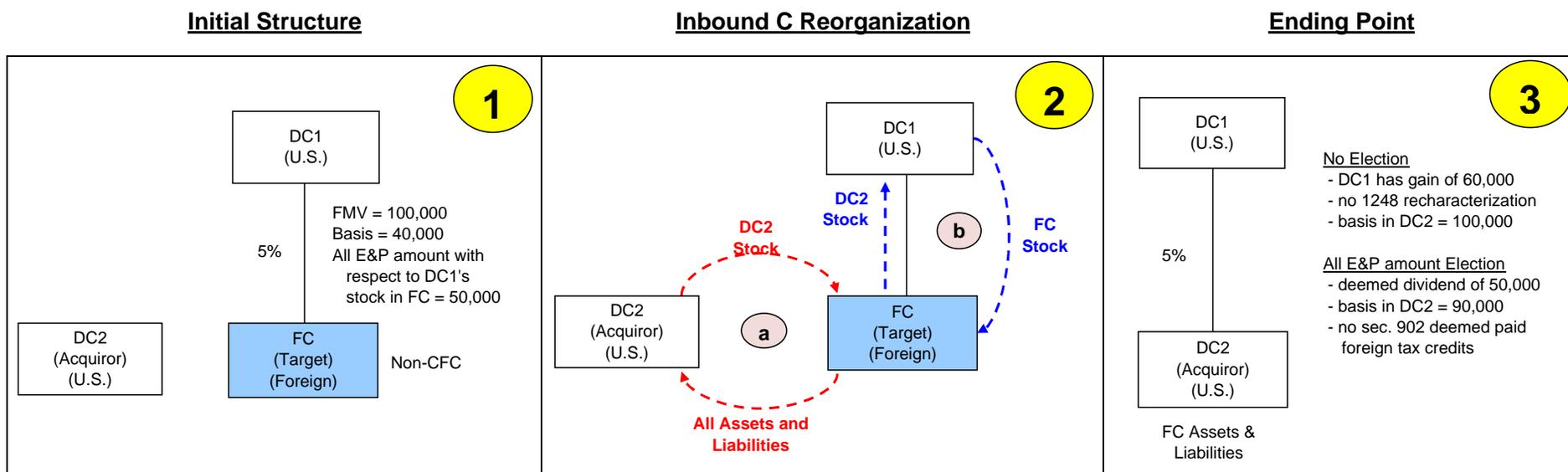


**Inbound C Reorganization:
<10% Shareholder - All E&P Election**



DC1, a domestic corporation, owns 5 percent of the outstanding stock of FC, a foreign corporation that is not a controlled foreign corporation subject to the rule of section 953(c). Persons unrelated to DC1 own the remaining 95 percent of the outstanding stock of FC. DC1 has owned its 5 percent interest in FC since FC was incorporated. DC1's stock in FC has a basis of \$40,000 and a value of \$100,000. The all earnings and profits amount with respect to DC1's stock in FC is \$50,000. In a section 368(a)(1)(C) reorganization, DC2, a domestic corporation, acquires all of the assets and liabilities of FC in exchange for DC2 stock. FC distributes DC2 stock to its shareholders, and the FC stock held by its shareholders is canceled.

Alternate result 1: If DC1 does **not** make the election, then DC1 must recognize its \$60,000 gain in the FC stock. Under section 358(a)(1), DC1 has a \$100,000 basis (its \$40,000 basis in the FC stock, plus the \$60,000 recognized gain) in the DC2 stock that it receives in exchange for its FC stock. Because DC1 is not a shareholder described in section 1248(a)(2), section 1248 does not apply to recharacterize any of DC1's gain as a dividend.

Alternate result 2: If DC1 makes a valid all E&P amount election, then DC1 must include in income as a deemed dividend the \$50,000 all earnings and profits amount with respect to its FC stock. Under section 358(a)(1), DC1 has a \$90,000 basis (its \$40,000 basis in the FC stock, plus the \$50,000 that was treated as a deemed dividend to DC1) in the DC2 stock that it receives in exchange for its FC stock. Because DC1 owns less than 10 percent of the voting stock of FC, DC1 does not qualify for a deemed paid foreign tax credit under section 902.