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 $48,000. 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.

Because DC1's stock in FC has a fair market value of less than $50,000, the de minimis exception applies. As a result, DC1 is not subject to the gain or income inclusion requirements.