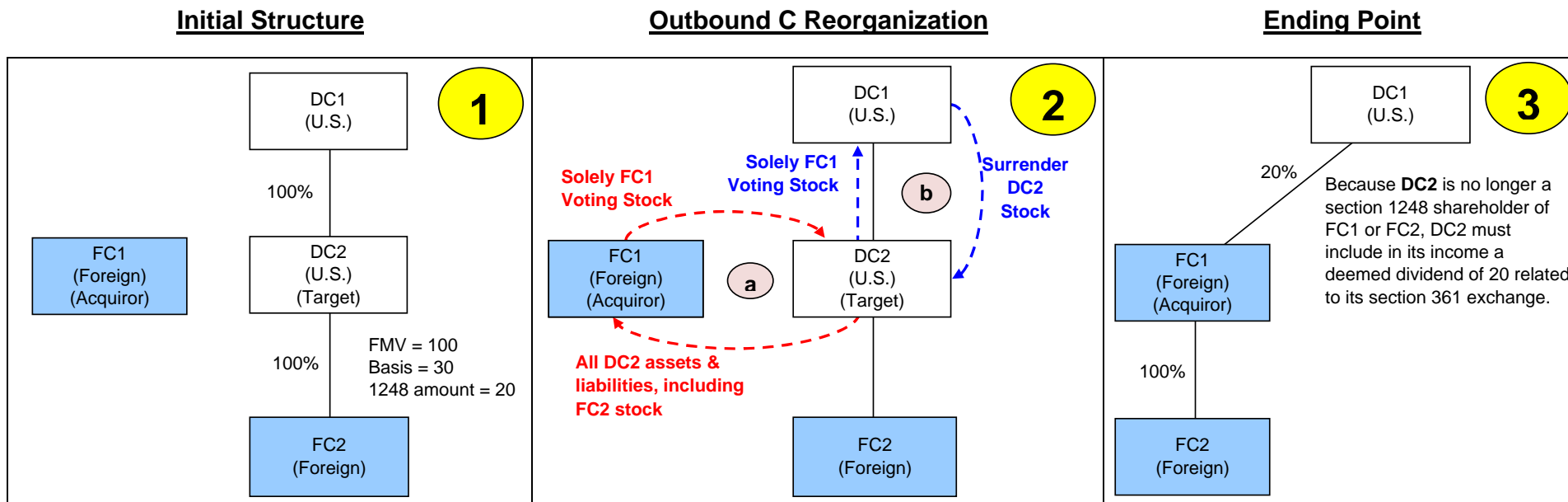


**Outbound C Reorg Triggers
 Sec. 1248 Amount Inclusion**



DC1, a domestic corporation, owns all of the outstanding stock of DC2, a domestic corporation. DC2 owns various assets including all of the outstanding stock of FC2, a foreign corporation. The stock of FC2 has a value of \$100, and DC2 has a basis of \$30 in such stock. The section 1248 amount attributable to the FC2 stock held by DC2 is \$20. DC2 does not own any other stock in a foreign corporation. FC1 is a foreign corporation that is unrelated to DC1, DC2 and FC2. In a reorganization described in section 368(a)(1)(C), FC1 acquires all of the assets and liabilities of DC2 in exchange for FC1 voting stock that represents 20 percent of the outstanding voting stock of FC1. DC2 distributes the FC1 stock to DC1, and the DC2 stock held by DC1 is canceled. DC1 files a gain recognition agreement with respect to DC2's transfer of the FC2 stock to FC1.

DC2 is the exchanging section 1248 shareholder with respect to FC2. Immediately after the exchange, DC2 is not a section 1248 shareholder with respect to FC1. Thus, DC2 must include in income, as a deemed dividend from FC2, the section 1248 amount (\$20) attributable to the FC2 stock that DC2 exchanges in the section 361 exchange. This result arises without regard to whether FC1 and FC2 are CFCs immediately after the exchange. [because DC2 no longer exists - see Reg. 1.367(b)-4(b)(1)(i)(B)(1)] For the tax treatment of DC2's transfer of assets (other than stock) to FC1, see sections 367(a)(1) and (a)(3). Because the exchange is also described in section 361(a) or (b), see section 367(a)(5). If any of the assets transferred are intangible assets, see section 367(d).