

Reg. 1.7874-2(k),
Example 13

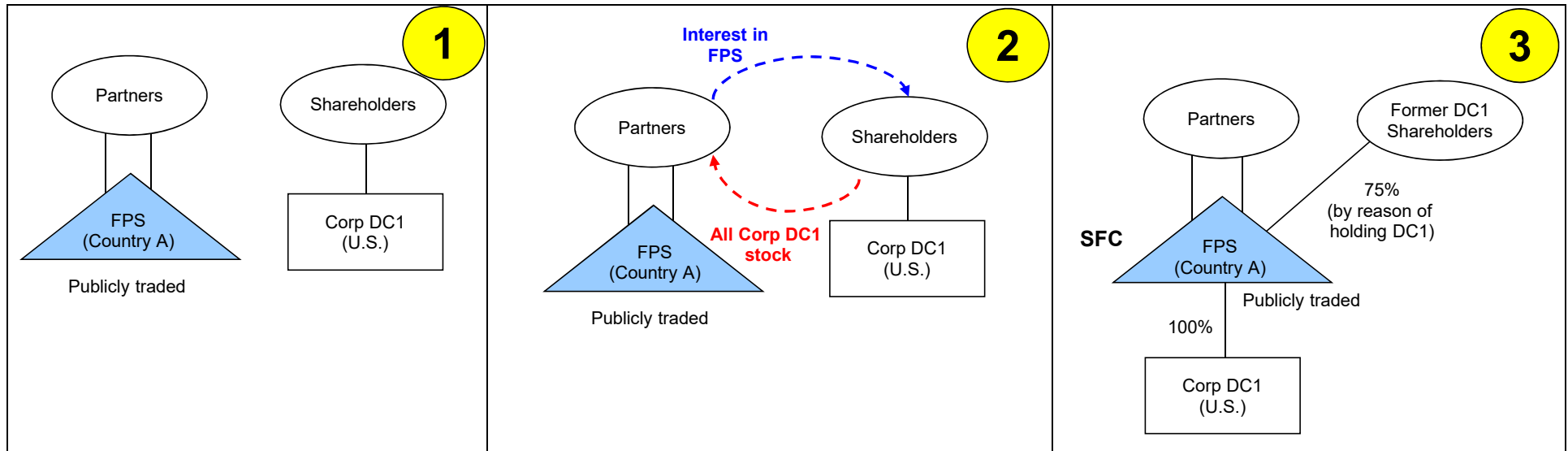
**Publicly Traded Foreign Partnership
a SFC But Not a Domestic Corporation**

Copyright © 2016 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

Initial Structure

Stock Acquisition

Ending Point



DC1 is a domestic corporation. FPS is a publicly traded foreign partnership organized in Country A that, by reason of Code §7704(c), is not treated as a corporation under Code §7704(a). FPS acquires all the stock of DC1 in exchange for partnership interests in FPS. After the acquisition, the former domestic entity shareholders of DC1 hold a 75%-interest in FPS by reason of holding DC1 stock. After the acquisition, the expanded affiliated group that includes FPS (treated as a foreign corporation for this purpose) does not have substantial business activities in Country A when compared to the total business activities of the expanded affiliated group.

Under Treas. Reg. §1.7874-2(g)(1), for purposes of Code §7874, FPS is treated as a foreign corporation and the partnership interests in FPS are treated as stock of the foreign corporation. FPS is treated as a surrogate foreign corporation because the conditions of Code §7874(a)(2)(B) are satisfied. However, because the former domestic entity shareholders of DC1 hold less than an 80%-interest in FPS by reason of holding DC1 stock, Code §7874(b) does not apply to FPS. Therefore, under Treas. Reg. §1.7874-2(g)(4) FPS continues to be treated as a foreign partnership for purposes of the Code, but Code §7874(a)(1) applies to DC1 and any other expatriated entity.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)