USP, a domestic corporation wholly owned by Individual A, owns all the stock of USS, a domestic corporation, and USS owns all the stock of DT, also a domestic corporation. DT owns all the stock of FT, a foreign corporation. The FT stock represents substantially all of the property of DT for purposes of Code §7874. Pursuant to a divisive reorganization described in Code §368(a)(1)(D), DT transfers all the FT stock to FA, a newly formed foreign corporation, in exchange for 100 shares of FA stock (DT acquisition) and distributes the FA stock to USS pursuant to Code §361(c)(1). In a related transaction, USS distributes all the FA stock to USP under Code §355(c)(1). Lastly, in another related transaction and pursuant to a divisive reorganization described in Code §368(a)(1)(D), USP transfers all the stock of USS and FA to DP, a newly formed domestic corporation, in exchange for all the stock of DP and distributes the DP stock to Individual A pursuant to Code §361(c)(1).

The 100 FA shares received by USS are stock of a foreign acquiring corporation described in Code §7874(a)(2)(B)(ii) and, under Treas. Reg. §1.7874-5T(a), the shares retain their status as such even though USS subsequently transfers the shares to USP. Thus, the 100 FA shares are included in the ownership fraction, unless the shares are treated as held by members of the EAG for purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1 and are excluded from the ownership fraction under those rules. For purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1, the 100 FA shares, which constitute transferred stock under Treas. Reg. §1.7874-6T(f)(2), are treated as held by members of the EAG only if an exception in Treas. Reg. §1.7874-6T(c) applies. See Treas. Reg. §1.7874-6T(b). The U.S.-parented group exception described in Treas. Reg. §1.7874-6T(c)(1) applies. The requirement set forth in Treas. Reg. §1.7874-6T(c)(1)(i) is satisfied because before the DT acquisition, USS (the transferring corporation) is a member of a U.S.-parented group of which USP is the common parent (the USP group). The requirement set forth in Treas. Reg. §1.7874-6T(c)(1)(ii) is satisfied because after the DT acquisition, and taking into account all transactions related to the acquisition, each of USS, DP (the person that holds the transferred stock), and FA (the foreign acquiring corporation) are members of a U.S.-parented group of which DP (a corporation that was formed in a transaction related to the DT acquisition and that, immediately after it was formed (but without regard to any related transactions) was a member of the USP group) is the common parent. Therefore, the 100 FA shares are excluded from the numerator and the denominator of the ownership fraction. Accordingly, the ownership fraction is 0/0.

[It is unclear how DT’s transfer of all the FT stock to FA could be a divisive D reorganization if the FT stock represents substantially all the property to DT.]