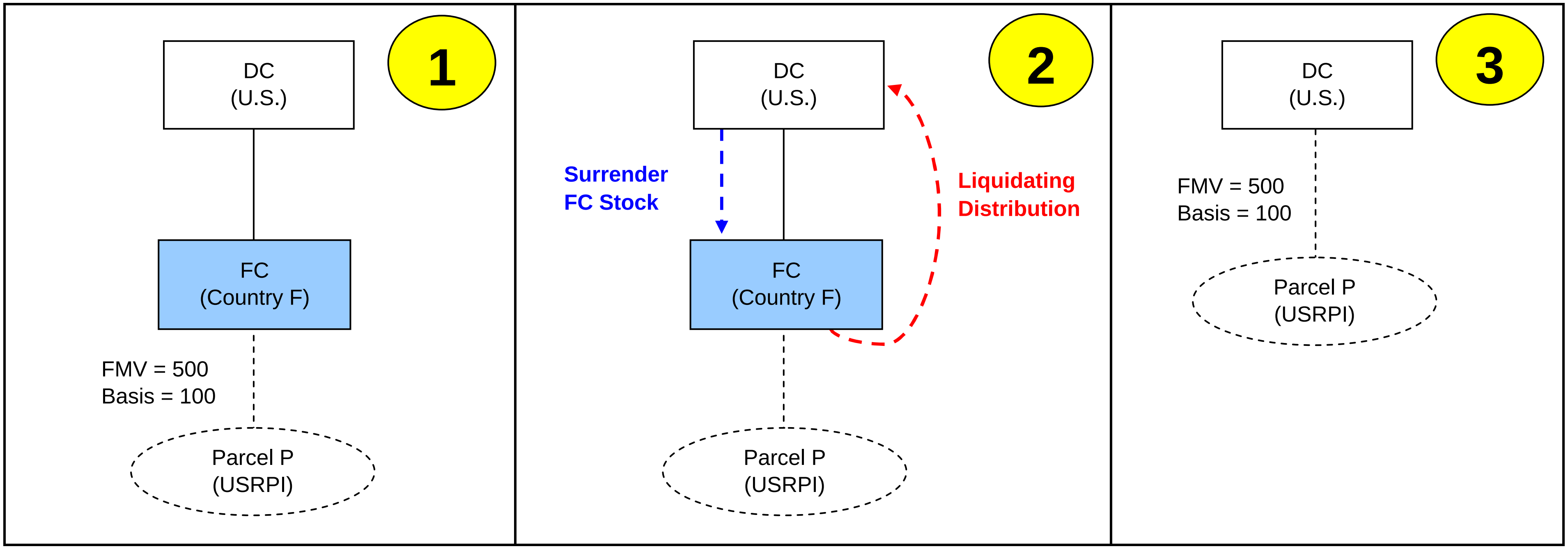
Temp. Reg. 1.897-5T(c)(2)(iii), Example 1

Inbound 332 Liquidation of USRPI

Copyright © 2008 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

Initial Structure | **Liquidation** | **Ending Point**



DC, a domestic corporation, owns 100 percent of the stock of FC, a Country F corporation. FC's only asset is Parcel P, a U.S. real property interest ("USRPI"), with a fair market value of $500x and an adjusted basis of $100x. In September 1987, FC liquidates under section 332(a) and transfers Parcel P to DC. The transitional rules contained in section 633 of the Tax Reform Act of 1986 concerning the repeal of the General Utilities doctrine would not be applicable to a subsequent distribution or disposition of assets by DC.

To avoid gain recognition, FC must comply with the filing requirements of Temp. Reg. 1.897-5T(d)(1)(iii). DC will be subject to U.S. income taxation on a subsequent disposition of Parcel P. The basis of Parcel P in the hands of DC will be $100x under section 334(b)(1), and thus no greater than the basis of Parcel P in the hands of FC. FC does not recognize any gain on the distribution.

HUNDREDS of additional charts at www.andrewmitchel.com