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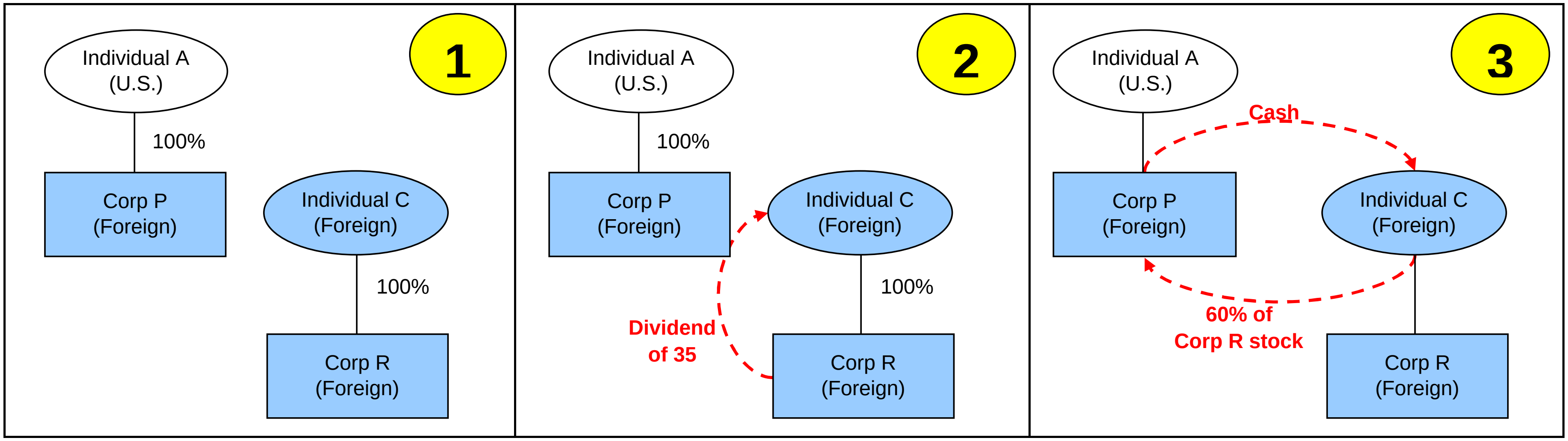
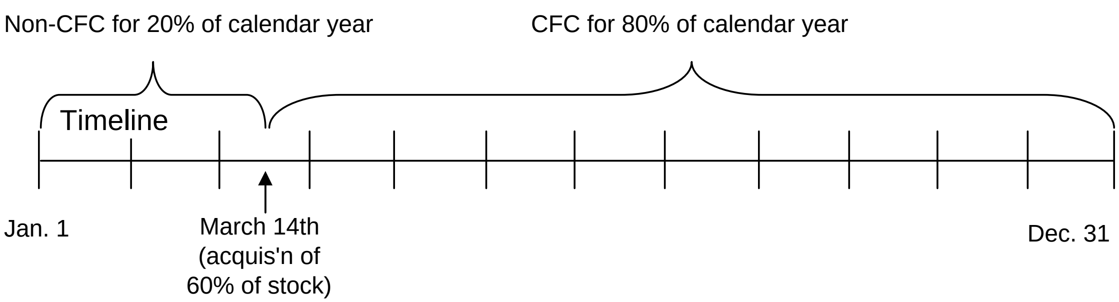
Reg. 1.951-1(b)(2), Example 5

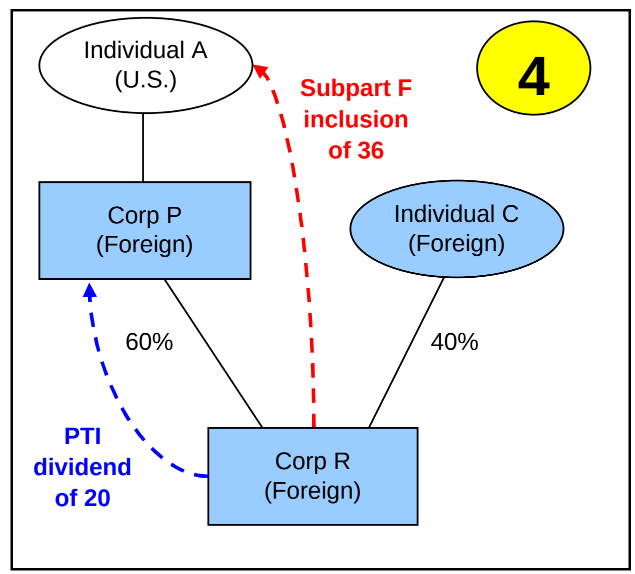
Subpart F Income: CFC for Last Part of Year

Jan. 1, 1963 | **Pre-March 14, 1963** | **March 14, 1963**





Dec. 31, 1963



At the beginning of 1963, A, a United States shareholder, owns 100% of the stock of P, a controlled foreign corporation, and C, a nonresident alien, owns 100% of the stock of R, a foreign corporation. On March 14, 1963, Corp P acquired 60% of Corp R. A, Corp P, and Corp R use the calendar year as a taxable year. Thus, Corp R is a controlled foreign corporation for the period March 15, 1963, through December 31, 1963. For 1963, Corp R derives $100 of subpart F income and has $100 of earnings and profits. Before Corp P's acquisition of such stock, Corp R had distributed a dividend of $35 to C in 1963. A must include $36 in his gross income for 1963 under section 951(a)(1)(A)(i) (100 X 80% of year = 80 [sub F for all stock]; 80 X 60% of stock = 48 [sub F related to 60% of stock]; reduced by dividends paid of 12 [lesser of 35 or 100 X 20% X 60% = 12; See Reg. 1.951-1(b)(1)(ii)]).