FC8, a CFC, has outstanding 40 shares of common stock and 10 shares of 4-percent voting preferred stock with a par value of $50 per share. Pursuant to the terms of the preferred stock, FC8 has the right to redeem at any time, in whole or in part, the preferred stock. FP, a foreign corporation, owns all of the preferred shares. Corp G, a domestic corporation wholly owned by FP and a United States shareholder of FC8, owns all of the common shares. FP and Corp G are shareholders of FC8 for all of 2005. For 2005, FC8 has $100 of earnings and profits, and subpart F income of $100. In 2005, FC8 distributes as a dividend $20 to FP with respect to FP's preferred shares. FC8 makes no other distributions during that year.

The redemption rights of the preferred shares will not be treated as a discretionary distribution right. FC8's redemption rights with respect to the preferred shares cannot affect the allocation of earnings and profits between FC8's shareholders. Therefore, if the total $100 of earnings were distributed on December 31, 2005, $20 would be distributed with respect to FP's preferred shares and the remainder, $80, would be distributed with respect to Corp G's common shares. Accordingly, Corp G's pro rata share of FC8's subpart F income is $80 for taxable year 2005.