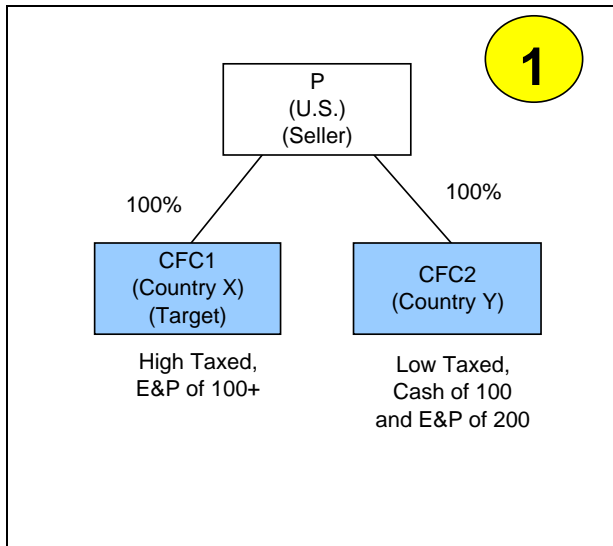


**Temp. Reg. 1.304-4T(a),  
Example**

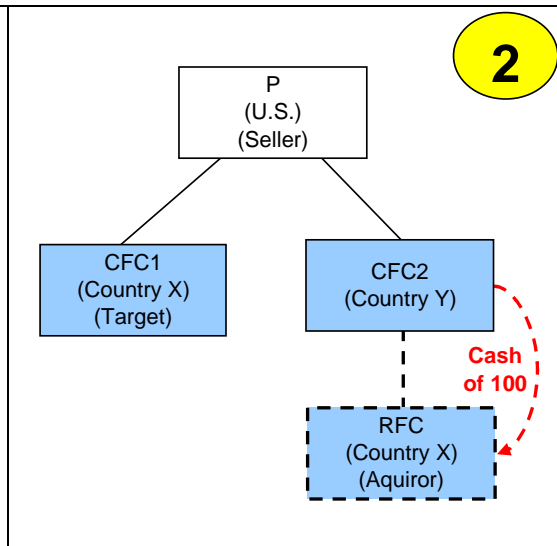
**Section 304 Anti-Abuse Rule**

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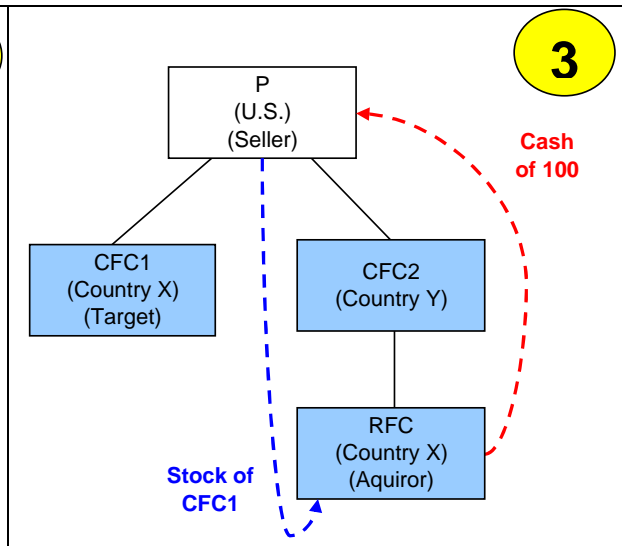
**Initial Structure**



**Newco Formation**



**Related Stock Sale**



P, a domestic corporation, owns all of the stock of CFC1, a controlled foreign corporation with substantial accumulated earnings and profits. CFC1 is organized in Country X, which imposes a high rate of tax on CFC1's income. P also owns all of the stock of CFC2, another controlled foreign corporation, which has accumulated earnings and profits of \$200x. CFC2 is organized in Country Y which imposes a low rate of tax on CFC2's income. P wishes to own all of its foreign corporations in a direct chain and to effectuate a repatriation of CFC2's cash to P. In order to avoid having to obtain Country X approval for the acquisition of CFC1 (a Country X corporation) by CFC2 (a Country Y corporation) and to avoid a dividend to P out of CFC2's earnings and profits that would otherwise occur as a result of the application of section 304, P causes CFC2 to form RFC as a Country X wholly-owned subsidiary and to contribute \$100x to RFC. RFC will purchase, for \$100x, all of the stock of CFC1 from P. Because one of P's principal purposes for having CFC1 owned by RFC is to avoid section 304, under Reg. 1.304-4T(a), CFC2 is considered to have acquired the stock of CFC1 for \$100x for purposes of determining the amount constituting a dividend (and source thereof) for purposes of section 304(b)(2).

**Ending Point**

