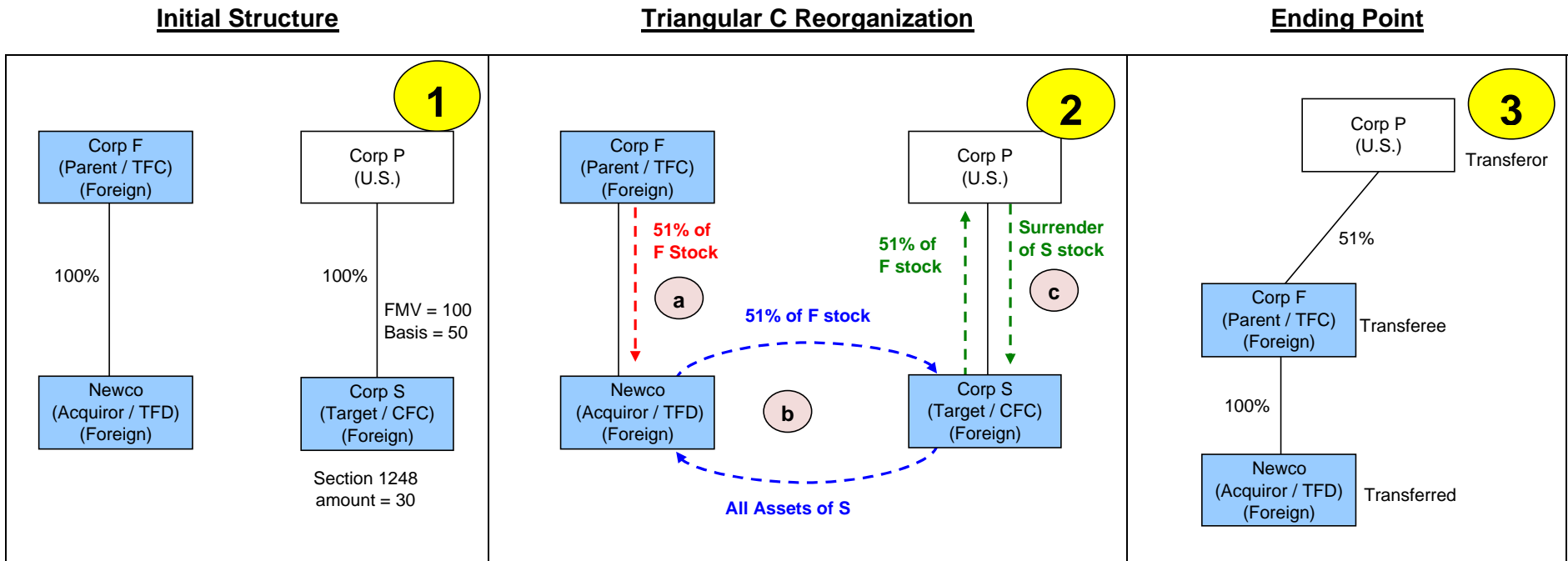


Reg. 1.367(a)-3(d)(3), Example 14A
368(a)(1)(C)
 (formerly Example 11A)

**Indirect Stock Transfer -
 Triangular C Reorganization**

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F, a foreign corporation, owns all of the stock of Newco, which is also a foreign corporation. P, a domestic corporation, owns all of the stock of S, a foreign corporation that is a controlled foreign corporation within the meaning of section 957(a). P's basis in the stock of S is \$50 and the value of S is \$100. The section 1248 amount with respect to S stock is \$30. In a reorganization described in section 368(a)(1)(C), Newco acquires all of the properties of S, and P exchanges its stock in S for 51 percent of the stock of F.

P's exchange of S stock for F stock under section 354 will be taxable under section 367(a) (and section 1248 will be applicable) if P fails to enter into a 5-year gain recognition agreement in accordance with §1.367(a)-8. If P enters into a gain recognition agreement, the exchange will be subject to the provisions of section 367(b) and the regulations thereunder as well as section 367(a). Assuming §1.367(b)-4(b) does not apply, there is no income inclusion under section 367(b), and the amount of the gain recognition agreement is \$50.