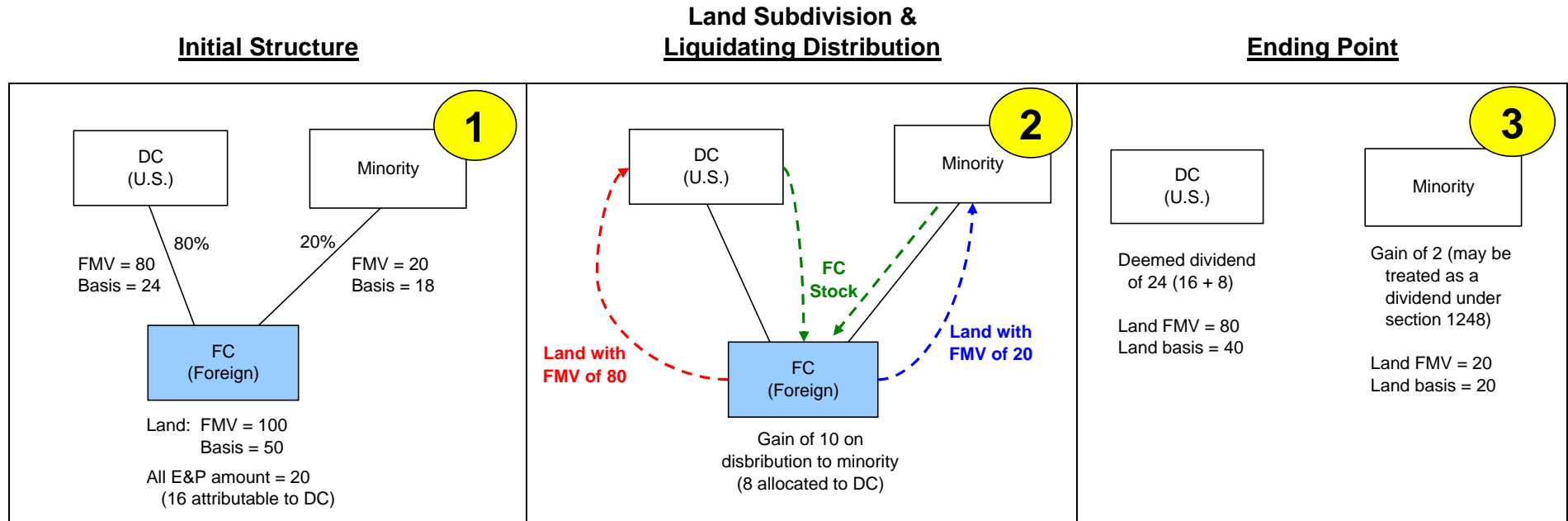


**CFC Inbound Section 332  
Liquidation With 80% Ownership**



DC, a domestic corporation, owns 80% of the outstanding stock of FC, a foreign corporation. The remaining 20% of the outstanding stock of FC is owned by a person unrelated to DC (the minority shareholder). The stock of FC owned by DC has a value of \$80, and DC has a basis of \$24 in such stock. The stock of FC owned by the minority shareholder has a value of \$20, and the minority shareholder has a basis of \$18 in such stock. FC's only asset is land having a value of \$100, and FC has a basis of \$50 in the land. Gain on the land would not generate E&P qualifying under section 1248(d) for an exclusion from E&P for purposes of section 1248. FC has E&P of \$20, \$16 of which is attributable to the stock owned by DC. FC subdivides the land and distributes to the minority shareholder land with a value of \$20 and a basis of \$10. As part of the same transaction, in a liquidation described in section 332, FC distributes the remainder of its land to DC, and the FC stock held by DC and the minority shareholder is canceled.

Under section 336, FC must recognize the \$10 of gain it realizes in the land it distributes to the minority shareholder, and under section 331 the minority shareholder recognizes its gain of \$2 in the stock of FC. Such gain is included in income by the minority shareholder as a dividend to the extent provided in section 1248. The \$10 of gain recognized by FC increases its E&P for purposes of computing the all E&P amount and, as a result, \$8 of such increase (80 percent of \$10) is considered to be attributable to the FC stock owned by DC. DC's all E&P amount with respect to its stock in FC is \$24 (the \$16 of initial all E&P amount, plus the \$8 addition). DC must include the \$24 all E&P amount in income as a deemed dividend from FC.