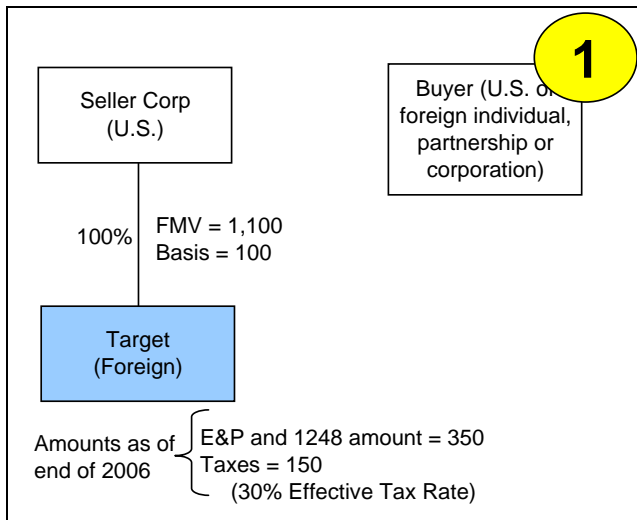


U.S. Corporate Seller of CFC: Buyer Makes Immediate Check-the-Box Election

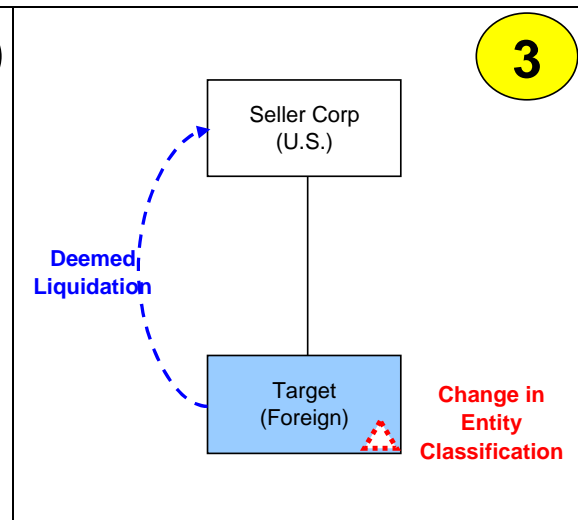
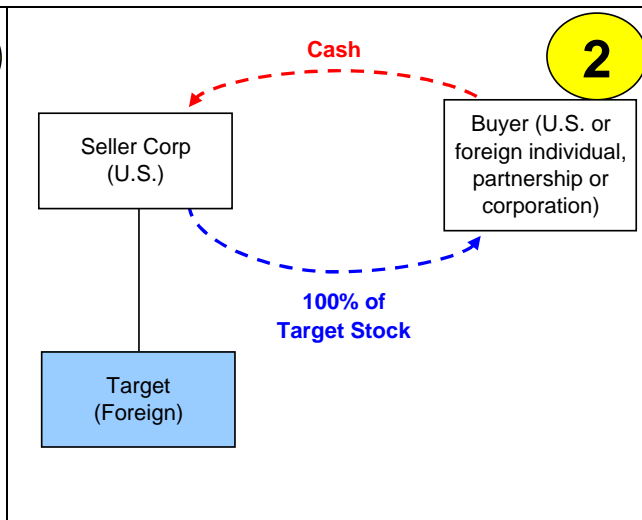
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Target CTB Election (July 1, 2006) Deemed Liquidation Effective End of Day (June 30, 2006)

Initial Structure (Jan. 1, 2006)

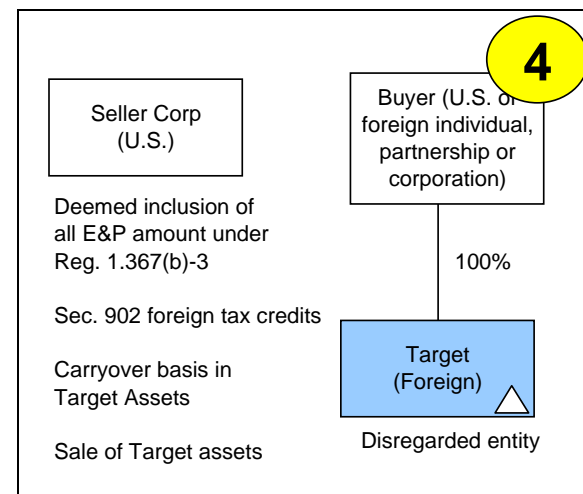


Sale of Target (July 1, 2006)



If a U.S. person sells stock in an eligible entity, the purchasers of the entity can make a check-the-box election (Form 8832) to change the existing entity classification of the entity. The impact of such an election is effective at the end of the day prior to the effective date of the election. If the purchaser were to make an election changing the entity classification from corporation to disregarded entity with an effective date on the date of purchase, then the election would be treated as a liquidation of the target entity into the selling entity. For the purchaser to make the election effective on the date of the acquisition, the seller must also sign the election. Treas. Reg. §301.7701-3(c)(2)(iii). In the above example, the seller is a U.S. corporation and the target is a controlled foreign corporation. Thus, the election would cause the seller to include in income the all earnings and profits amount of the target. Such an election can have adverse consequences to the seller. Thus, the seller may not be willing to sign such an election.

Ending Point



△ Flow-thru for U.S. tax purposes