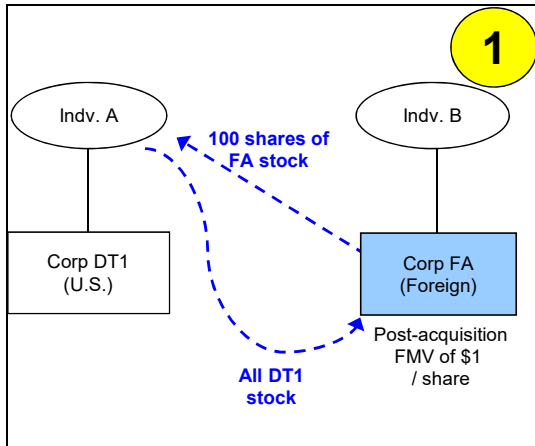


**Reg. 1.7874-8T(h)  
Example 3**

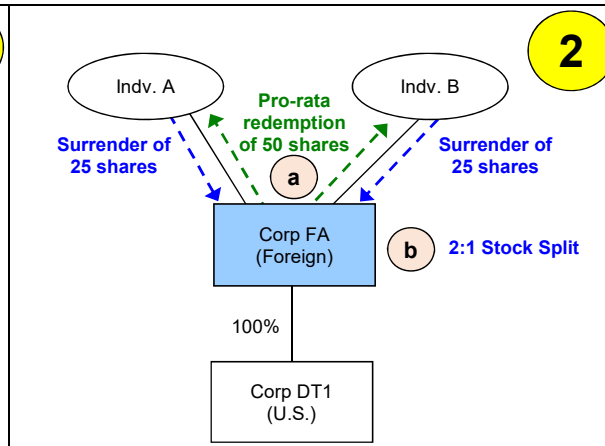
**Multiple Domestic Entity Acquisitions  
- Effect of Redemptions & Stock Split**

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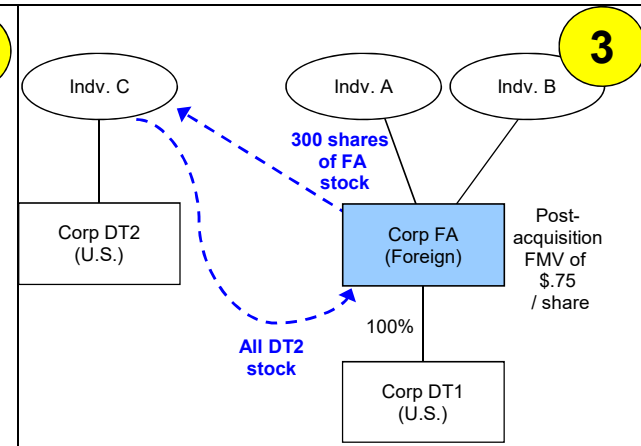
**Year 1 - DT1 Acquisition**



**Year 2 - Redemption & Stock Split**



**Year 3 - DT2 Acquisition**



Individual A wholly owns DT1, a domestic corporation. Individual B owns all 100 shares of the sole class of stock of FA, a foreign corporation. In Year 1, FA acquires all the stock of DT1 solely in exchange for 100 shares of newly issued FA stock (DT1 acquisition). On the completion date with respect to the DT1 acquisition, the fair market value of each share of FA stock is \$ 1x. In Year 2, FA redeems 50 shares of its stock (the Year 2 redemption). After the Year 2 redemption, FA undergoes a stock split and each of the 150 shares of FA stock outstanding are converted into two shares (Year 2 stock split). In Year 3, FA enters into a binding contract to acquire all the stock of DT2, a domestic corporation wholly owned by Individual C. Thereafter, FA acquires all the stock of DT2 solely in exchange for 300 shares of newly issued FA stock (DT2 acquisition). On the completion date with respect to the DT2 acquisition, the fair market value of each share of FA stock is \$.75x. FA did not complete the DT1 acquisition and DT2 acquisition pursuant to a plan (or series of related transactions) for purposes of applying Treas. Reg. §1.7874-2(e).

The DT1 acquisition is a prior domestic entity acquisition with respect to the DT2 acquisition (the relevant domestic entity acquisition), and Treas. Reg. §1.7874-8T(b) thus applies to the DT2 acquisition. In addition, the redemption testing period is the period beginning on the day after the completion date with respect to the DT1 acquisition and ending on the day prior to the completion date with respect to the DT2 acquisition. To calculate the redemption fraction, the total number of prior acquisition shares and the number of redeemed shares during the redemption testing period must be appropriately adjusted to take into account the Year 2 stock split. See Treas. Reg. §1.7874-8T(f). In this case, the appropriate adjustment is to increase the total number of prior acquisition shares from 100 to 200 and to increase the number of redeemed shares during the redemption testing period from 50 to 100. Thus, the redemption fraction for the redemption testing period is 200/400, calculated as 200 (the total number of prior acquisition shares) divided by 400 (300, the number of outstanding shares of FA stock on the last day of the redemption testing period, plus 100, the number of redeemed shares during the redemption testing period), and the allocable redeemed shares for the redemption testing period is 50, calculated as 100 (the number of redeemed shares during the redemption testing period) multiplied by 200/400 (the redemption fraction for the redemption testing period). In addition, for purposes of calculating the excluded amount, the total number of prior acquisition shares must be adjusted from 100 to 200. See Treas. Reg. §1.7874-8T(f). Accordingly, the excluded amount is \$112.50x calculated as 150 (200, the total number of prior acquisition shares, less 50, the allocable redeemed shares) multiplied by \$0.75x (the fair market value of a single share of FA stock on the completion date with respect to the DT2 acquisition). Consequently, the numerator of the ownership fraction by value is \$ 25x (the fair market value of the stock of FA that, with respect to the DT2 acquisition, is described in Code §7874(a)(2)(B)(ii)), and the denominator of the ownership fraction is \$337.50x (calculated as \$450x, the fair market value of all shares of FA stock as of the completion date with respect to the DT2 acquisition, less \$112.50x, the excluded amount). Therefore, the ownership percentage by value is 66.67.

**Ending Point**

