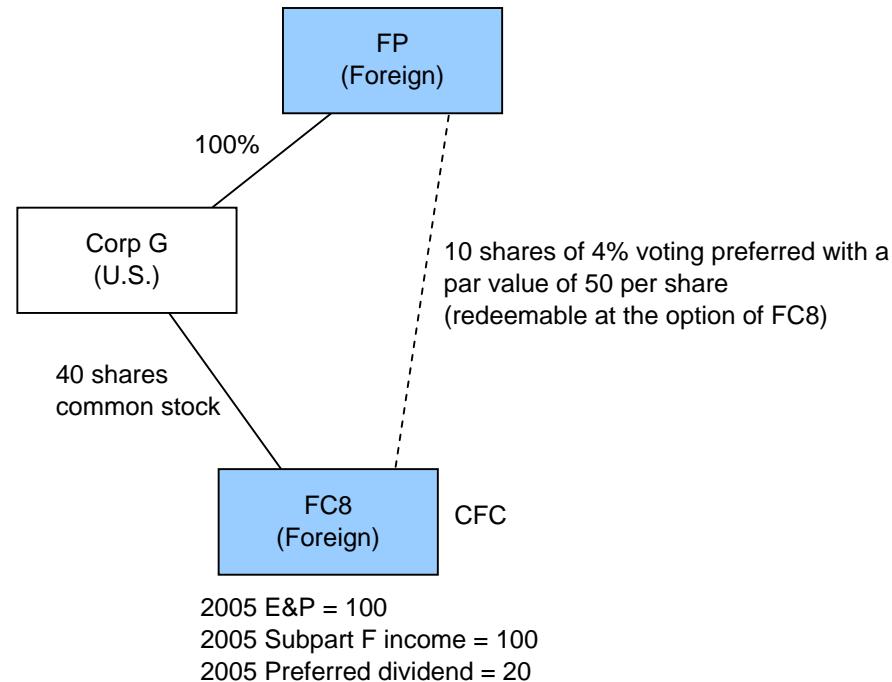


## Reg. 1.951-1(e)(6), Example 7

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### Pro Rata Share - Redeemable Preferred



FC8, a CFC, has outstanding 40 shares of common stock and 10 shares of 4-percent voting preferred stock with a par value of \$50x per share. Pursuant to the terms of the preferred stock, FC8 has the right to redeem at any time, in whole or in part, the preferred stock. FP, a foreign corporation, owns all of the preferred shares. Corp G, a domestic corporation wholly owned by FP and a United States shareholder of FC8, owns all of the common shares. FP and Corp G are shareholders of FC8 for all of 2005. For 2005, FC8 has \$100x of earnings and profits, and subpart F income of \$100x. In 2005, FC8 distributes as a dividend \$20x to FP with respect to FP's preferred shares. FC8 makes no other distributions during that year.

The redemption rights of the preferred shares will not be treated as a discretionary distribution right. FC8's redemption rights with respect to the preferred shares cannot affect the allocation of earnings and profits between FC8's shareholders. Therefore, if the total \$100x of earnings were distributed on December 31, 2005, \$20x would be distributed with respect to FP's preferred shares and the remainder, \$80x, would be distributed with respect to Corp G's common shares. Accordingly, Corp G's pro rata share of FC8's subpart F income is \$80 for taxable year 2005.

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