U.S. Corporate Seller of CFC

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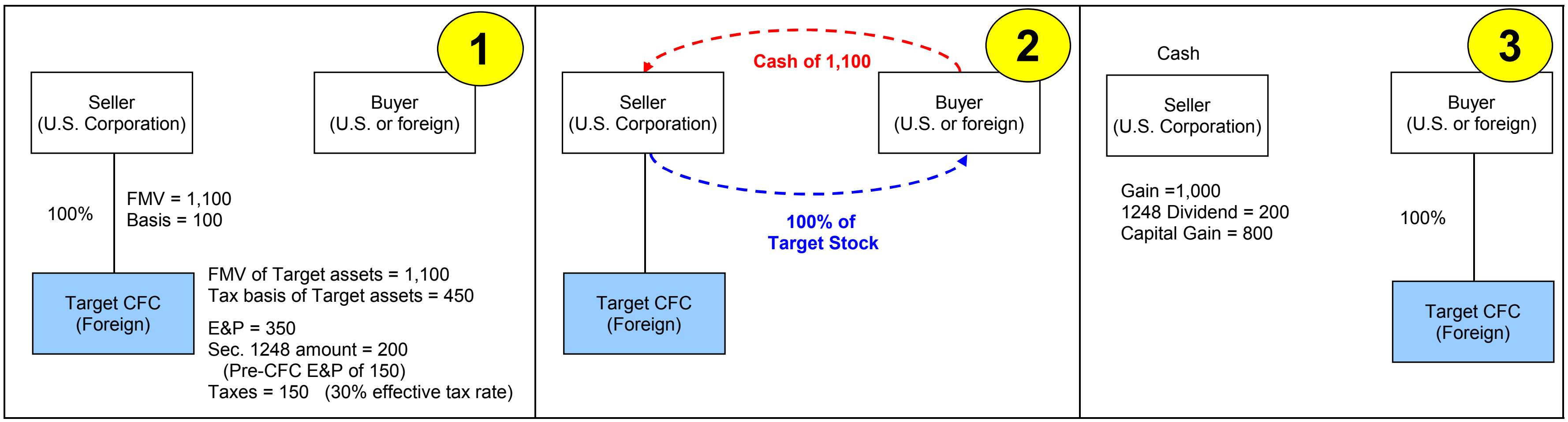
Initial Structure | **Sale of Target** | **Ending Point**



Assumptions

1. All amounts in U.S. dollars
2. All income (ordinary and capital gains) taxed at 35%
3. All foreign source income is in the general limitation basket
4. Seller has no other income
5. All E&P and taxes are in post-1986 pools
6. No AMT tax is due
7. Seller elects to claim foreign tax credits
8. No foreign taxes are paid on the sale

$$\text{Section 902 deemed paid foreign taxes} = \frac{\text{Dividend}}{\text{Pool of E\&P}} \text{ X Tax Pool} = \frac{200}{350} \text{ X } 150 = 86$$

$$\text{Foreign Tax Credit limitation} = \frac{\text{Foreign Source Income}}{\text{Worldwide Income}} \text{ X } \begin{array}{c}\text{Tentative}\\ \text{U.S. Tax}\end{array} = \frac{286}{1{,}086} \text{ X } 380 = 100$$

Worldwide Income Excluding Gross-up = 1,000
Sec. 78 Gross-up = 86
Worldwide Income Including Gross-up = 1,086
Foreign source income = 286 (200 + 86)
Tentative U.S. tax = 380 (1,086 X 35%)

Tentative U.S. tax	380
Less: Lesser of foreign taxes deemed paid or FTC limitation	(86)
Net U.S. tax due	294

Note that if E&P and the section 1248 amount both equaled 350, then the net U.S. tax due would be 280.

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