

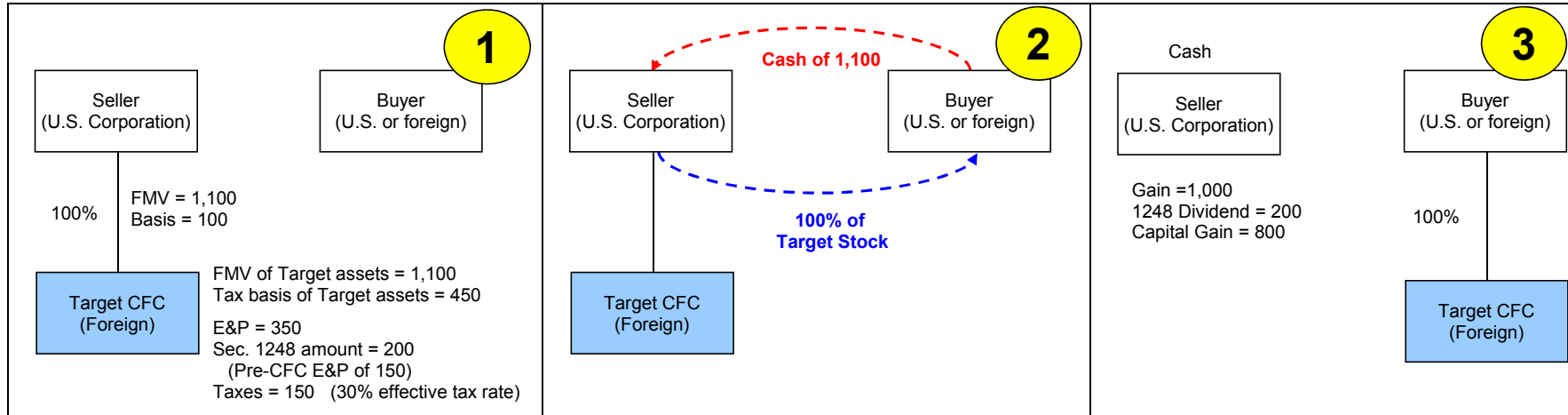
# U.S. Corporate Seller of CFC

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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

Section 902 deemed paid foreign taxes =	$\frac{\text{Dividend}}{\text{Pool of E\&P}} \times \text{Tax Pool} = \frac{200}{350} \times 150 = 86$
Foreign Tax Credit limitation =	$\frac{\text{Foreign Source Income}}{\text{Worldwide Income}} \times \text{Tentative U.S. Tax} = \frac{286}{1,086} \times 380 = 100$

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	<u>294</u>

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