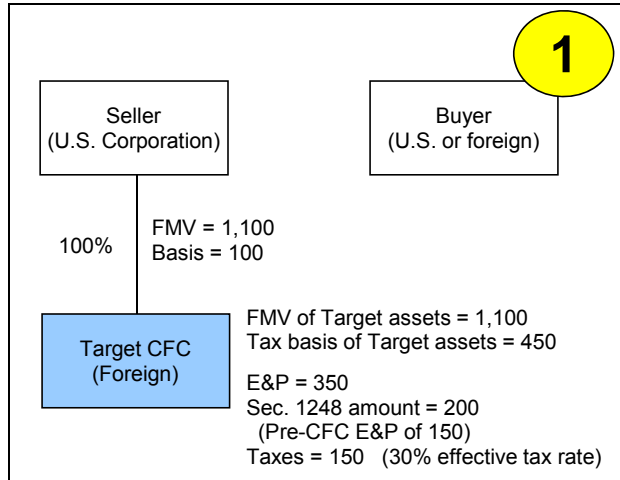


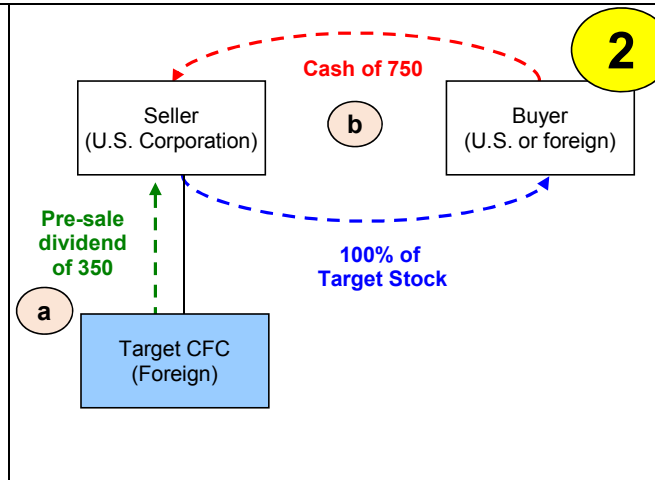
# U.S. Corporate Seller of CFC - Pre-Sale Distribution

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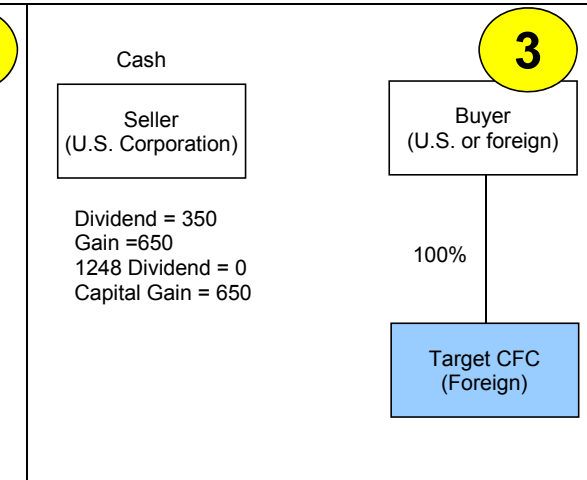
## Initial Structure



## Pre-Sale Dividend & 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. Pre-sale distribution not treated as part of sales proceeds
9. No foreign taxes are paid on the sale

|   |  |                        |                     |         |     |
|---|--|------------------------|---------------------|---------|-----|
| Section 902 deemed paid foreign taxes = | $\frac{\text{Dividend}}{\text{Pool of E\&P}}$                  | X Tax Pool =           | $\frac{350}{350}$   | X 150 = | 150 |
| Foreign Tax Credit limitation =         | $\frac{\text{Foreign Source Income}}{\text{Worldwide Income}}$ | X Tentative U.S. Tax = | $\frac{500}{1,150}$ | X 403 = | 175 |

Worldwide Income Excluding Gross-up = 1,000  
Sec. 78 Gross-up = 150  
Worldwide Income Including Gross-up = 1,150  
Foreign source income = 500 (350 + 150)  
Tentative U.S. tax = 403 (1,150 X 35%)

|  |            |
|--|------------|
| Tentative U.S. tax   | 403        |
| Less: Lesser of foreign taxes<br>deemed paid or FTC limitation | (150)      |
| Net U.S. tax due   | <u>253</u> |