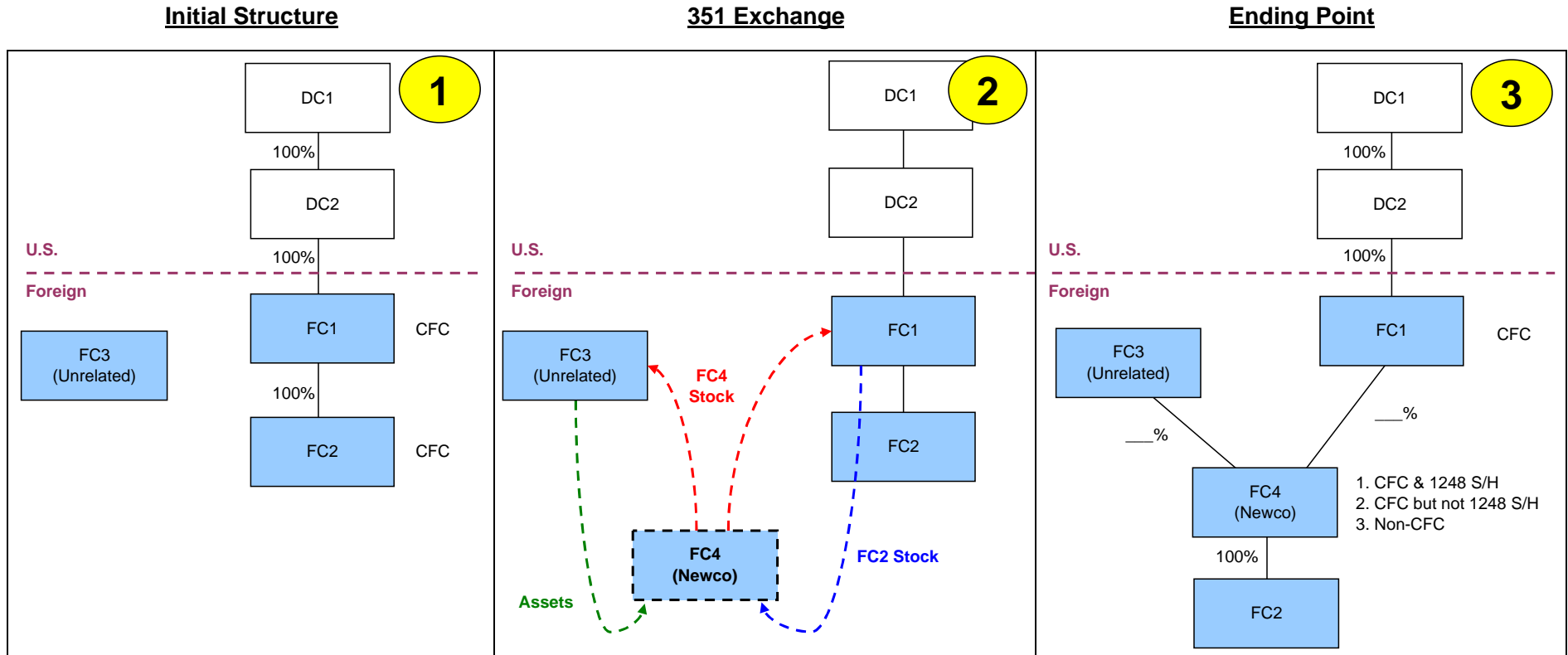


## Foreign-to-Foreign 351 Exchange - Stock

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There were no U.S. transferors. Therefore, the exchange is not subject to section 367(a). The exchange is subject to section 367(b) because it is described in section 351 and the status of a foreign corporation (FC4) as a corporation is relevant in determining tax attributes. The general rule of section 367(b) is that a foreign corporation is considered to be a corporation except to the extent provided in the regulations.

If, after the exchange, FC4 is a CFC and DC2 is a section 1248 shareholder of FC4 (FC1 owns >10% of the stock of FC4), then there are no exceptions to corporate treatment and no income inclusion is required under section 367(b). If, however, FC4 is not a CFC or DC2 is not a section 1248 shareholder with respect to FC4, then FC1 must include in income as a deemed dividend the section 1248 amount attributable to the FC2 stock. The deemed dividend is not treated as FPHC income.