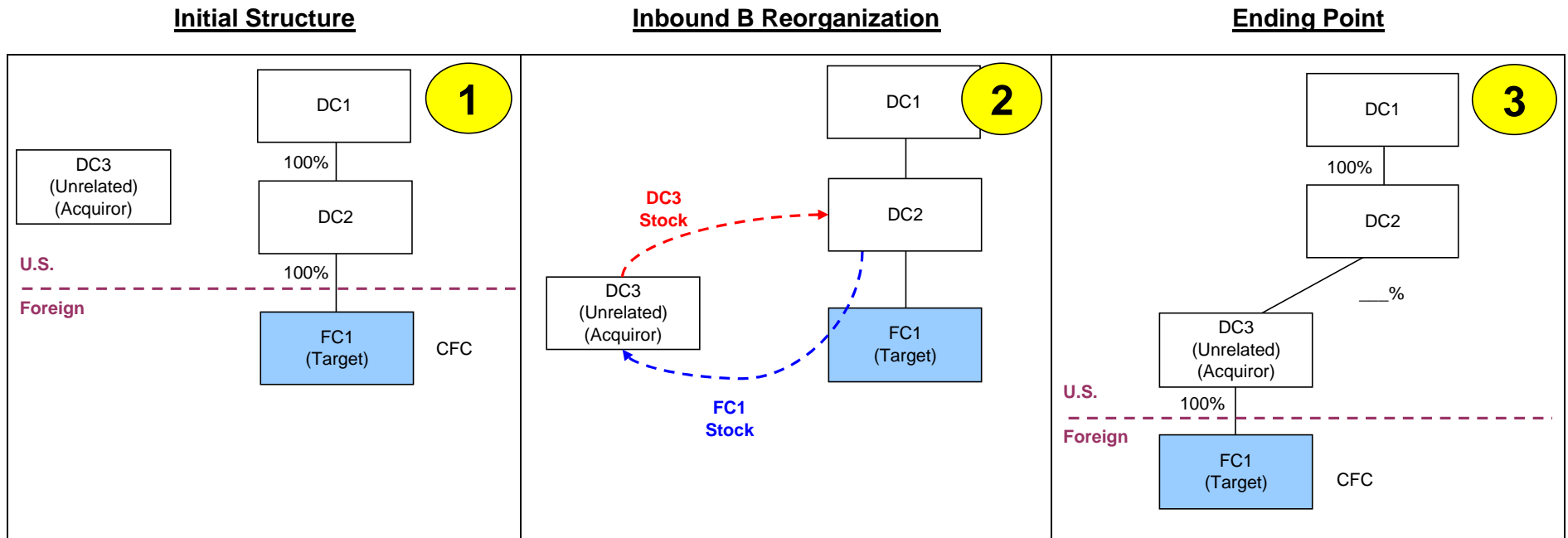


Inbound B Reorganization - First Tier Target

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Although DC2 is a U.S. transferor, there is no transfer TO a foreign corporation. Therefore, the exchange is not subject to section 367(a). The exchange is subject to section 367(b) because it is described in section 354 and the status of a foreign corporation (FC1) 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.

Reg. 1.367(b)-3(a) provides that special rules apply "to an acquisition by a domestic corporation . . . of the assets of a foreign corporation . . ." In the above exchange, DC3 acquired the STOCK of FC1 and not its ASSETS. Therefore, Reg. 1.367(b)-3 does not apply. Reg. 1.367(b)-4(a) provides that special rules apply "to an acquisition by a foreign corporation . . ." In the above exchange, DC3 is the acquiring corporation and DC3 is not a foreign corporation. Therefore, Reg. 1.367(b)-4 does not apply.

The regulations do not provide any exceptions to corporate treatment for the above B reorganization. Therefore, no income inclusions are required under section 367(b).