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

Initial Structure

1. Seller (U.S. Corporation)
   - FMV = 1,100
   - Basis = 100

2. Target CFC (Foreign)
   - FMV of Target assets = 1,100
   - Tax basis of Target assets = 450
   - E&P = 350
   - Sec. 1248 amount = 200
   - Taxes = 150 (30% effective tax rate)

3. Buyer (U.S. or foreign)
   - Target Stock

Pre-Sale Dividend & Sale of Target

1. Seller (U.S. Corporation)
   - Cash of 750

2. Cash of 750
   - 100% of Target Stock

3. Buyer (U.S. or foreign)
   - Dividend = 350
   - Gain = 650

Ending Point

1. Seller (U.S. Corporation)

2. Target CFC (Foreign)
   - Dividend = 350
   - Gain = 650
   - 100% basis = 100

3. Buyer (U.S. or foreign)

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 = \[ \frac{\text{Dividend}}{\text{Pool of E&P}} \times \text{Tax Pool} = \frac{350}{350} \times 150 = 150 \]

Foreign Tax Credit limitation = \[ \frac{\text{Foreign Source Income}}{\text{Worldwide Income}} \times \frac{\text{Tentative U.S. Tax}}{\text{U.S. Tax}} = \frac{500}{1,150} \times 403 = 175 \]

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
Less: Lesser of foreign taxes deemed paid or FTC limitation (150)
Net U.S. tax due = 253

HUNDREDS of additional charts at www.andrewmitchel.com