U.S. Individual Seller of CFC - Qualified Foreign Corporation (QFC)

Initial Structure

1. Seller (U.S. Individual)
   - 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
   - (Pre-CFC E&P of 150)
   - Taxes = 150 (30% effective tax rate)

Sale of Target

1. Cash of 1,100
2. 100% of Target Stock

Ending Point

1. Cash
2. Seller (U.S. Individual)
3. Buyer (U.S. or foreign)

Assumptions

1. All amounts in U.S. dollars
2. Capital gains taxed at 15%
3. Foreign dividend is taxed at 15% [Target CFC is a qualified foreign corp. - see Sec. 1(h)(11)(C) and Notice 2003-69]
4. Seller has no other income
5. No foreign taxes are paid on the sale

Section 902 deemed paid foreign taxes - Not applicable to individual shareholders

Foreign Tax Credit limitation - Not applicable (no foreign taxes paid or deemed paid)

Worldwide Income Excluding Gross-up = 1,000
Sec. 78 Gross-up = N/A
Worldwide Income Including Gross-up = 1,000
Foreign source income = 200
Tentative U.S. tax = 150 (1,000 X 15%)