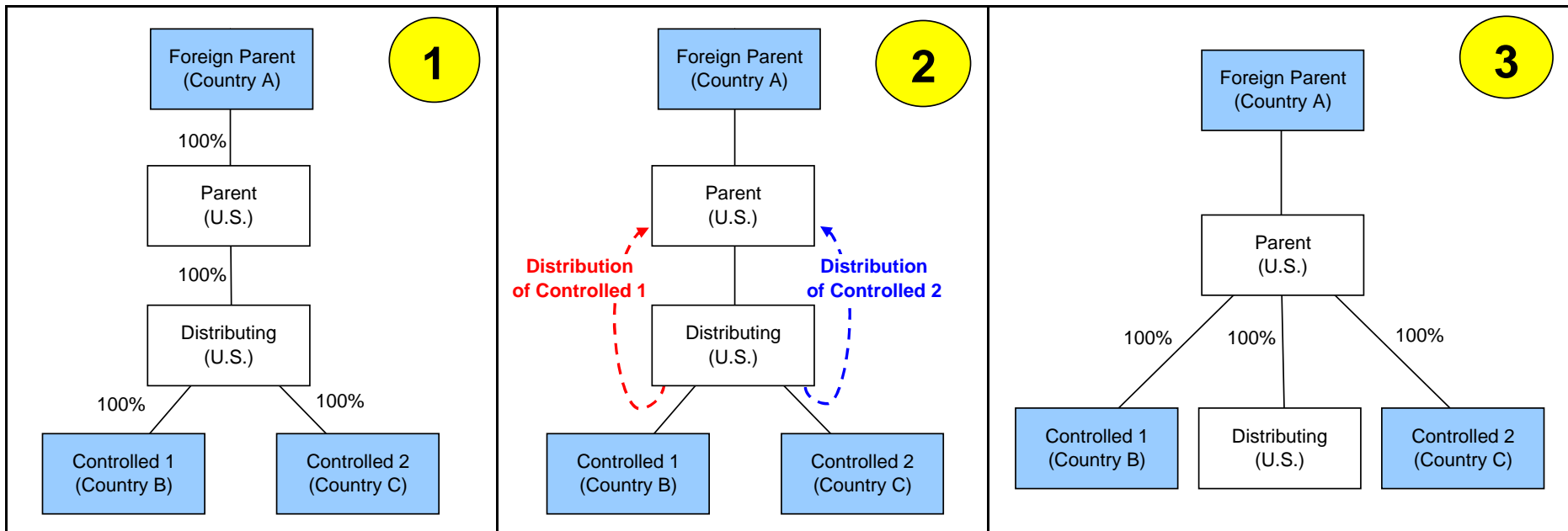


Domestic Spin-offs of CFCs to 100% Domestic Parent

Initial Structure

Spin-offs

Ending Point



Foreign Parent is a Country A corporation that is the parent of an affiliated group that comprises both domestic and foreign corporations ("Affiliated Group"). Foreign Parent wholly owns Parent, a State X holding company that wholly owns Distributing. Distributing is a State X corporation that operates in State Y. Distributing wholly owns Controlled 1 and Controlled 2. Controlled 1 is a Country B corporation and Controlled 2 is a Country C corporation. Distributing will distribute the stock of Controlled 1 and Controlled 2 to Parent (the "Spin-offs").

The basis of the stock of each of Controlled 1 and Controlled 2 in the hands of Parent shall be the lesser of the adjusted basis of the respective stock in the hands of Distributing or the substituted basis allocated to the stock of Controlled 1 and Controlled 2, respectively, in accordance with Reg. 1.358-2(a)(2). Section 1248(f)(2); Notice 87-64. The holding period for the stock of each of Controlled 1 and Controlled 2 received by Parent will be the greater of the holding period of such stock in the hands of Distributing or the holding period of the stock of Distributing in the hands of Parent. Section 1248(f)(2); Notice 87-64.

Section 1248(f)(1) will not be applicable to the distribution by Distributing of the stock of Controlled 1 and Controlled 2 to Parent. Section 1248(f)(2); Notice 87-64. If Parent does not recognize any gain under Section 1248 by virtue of Section 1248(f)(2), the earnings and profits of each of Controlled 1 and Controlled 2, respectively, to the extent attributable to such stock under Reg. 1.1248-2 or Reg. 1.1248-3 (whichever is applicable), which were accumulated in taxable years of such foreign corporations beginning after December 31, 1962, and during the periods that each of Controlled 1 and Controlled 2 was a controlled foreign corporation, shall be attributable to such stock. Reg. 1.1248-1(a)(1).