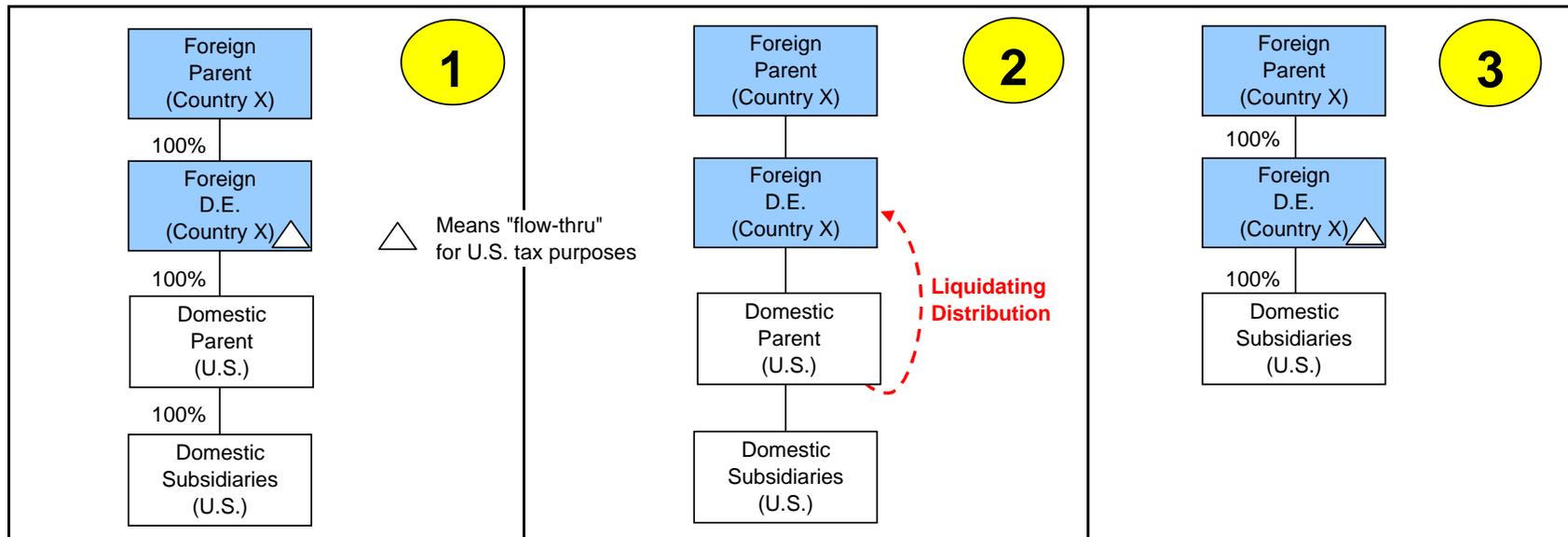


**Outbound 332 Liquidation With  
80% Domestic Subsidiary Corporation**

Initial Structure

Outbound Liquidation

Ending Point



Foreign Parent, a Country X corporation, is a corporation engaged through its subsidiaries in Businesses A, B, C, and D. Foreign Parent currently owns all of the outstanding stock of Foreign D.E., a Country X corporation that is treated for U.S. federal income tax purposes as a disregarded entity under Reg. 301.7701-3(a). Foreign D.E. owns all of the stock of Domestic Parent, a domestic corporation that is the parent of a consolidated return group. Domestic Parent currently owns directly, indirectly, or a combination thereof, all of the stock of --- domestic subsidiaries \*\*\*\*\* . Some of Domestic Parent's subsidiaries, in turn, own additional subsidiaries. Domestic Parent will completely liquidate and distribute its assets, including the shares of its subsidiaries, to Foreign D.E., which will be treated as a distribution to Foreign Parent for U.S. federal income tax purposes (the "Transaction"). The liquidating distribution in the Transaction will consist solely of stock of domestic corporations owned by Domestic Parent.

Section 337(a) generally provides that a liquidating corporation does not recognize gain or loss on the distribution of any property to an 80-percent distributee (as defined in § 337(c)) in a complete liquidation to which § 332 applies. Section 367(e)(2) provides that, in the case of any liquidation to which § 332 applies, except as provided in regulations, § 337(a) and (b)(1) shall not apply where the 80-percent distributee is a foreign corporation. Therefore, absent an exception under the regulations under § 367(e)(2), a domestic corporation must recognize gain or loss on a § 332 liquidating distribution to an 80-percent foreign distributee. If certain requirements are satisfied, the regulations under § 367(e)(2) provide a nonrecognition exception to this general rule for distributions of stock of domestic subsidiary corporations. Treas. Reg. § 1.367(e)-2(b)(2)(iii). To qualify for this exception, the domestic subsidiary corporation must be an 80 percent domestic subsidiary (as described in Treas. Reg. § 1.367(e)-2(b)(2)(iii)), and the domestic liquidating corporation must attach a statement described in Treas. Reg. § 1.367(e)-2(b)(2)(iii)(D) to its U.S. income tax return for the year of the distribution of such stock. Domestic Parent will not recognize gain on the distribution of the shares of the domestic subsidiary corporations in liquidation to Foreign Parent under § 367(e)(2) and the regulations thereunder. Treas. Reg. § 1.367(e)-2(b)(2)(iii) and -2(d).