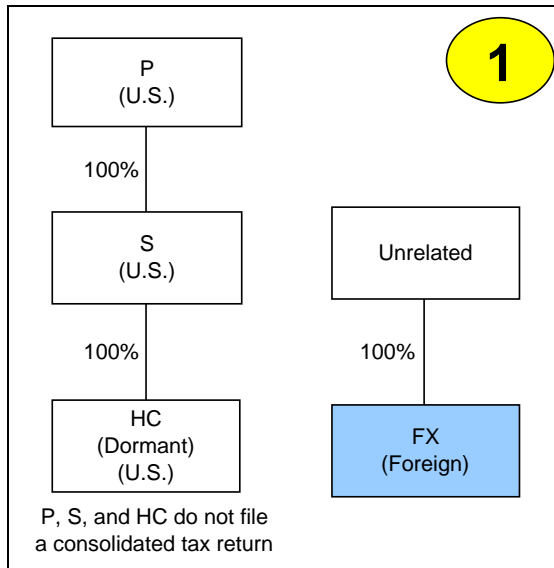
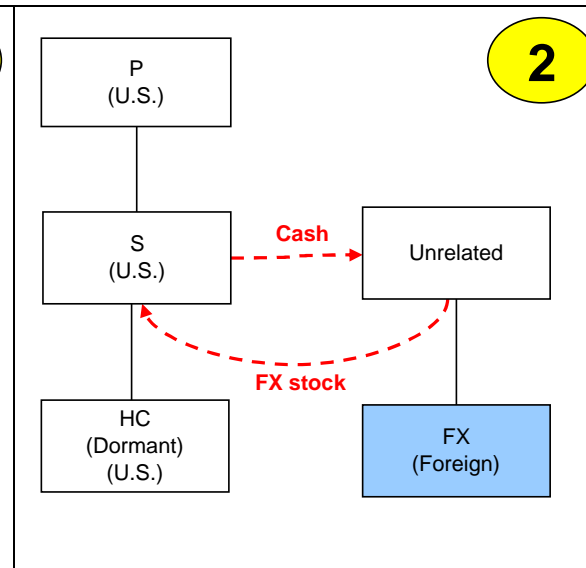


**Corporation Formed to Hold
Stock of Foreign Corporation**

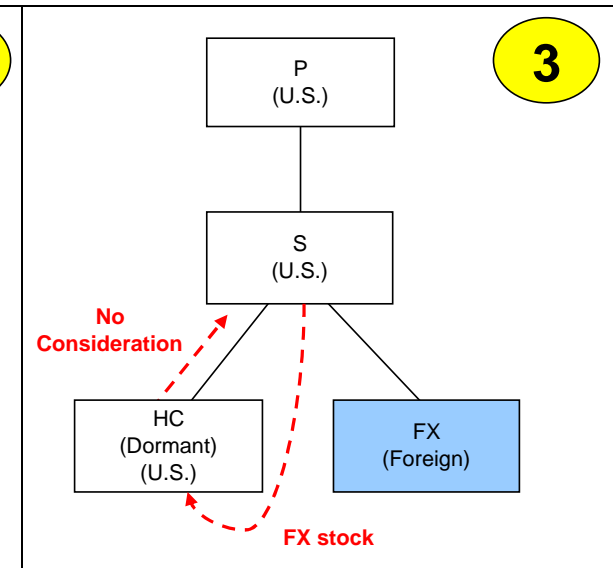
Initial Structure



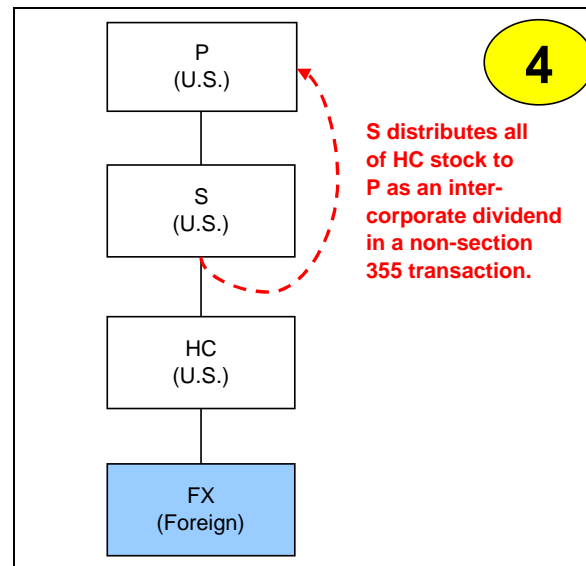
S Acquires FX Stock (1/1/83)



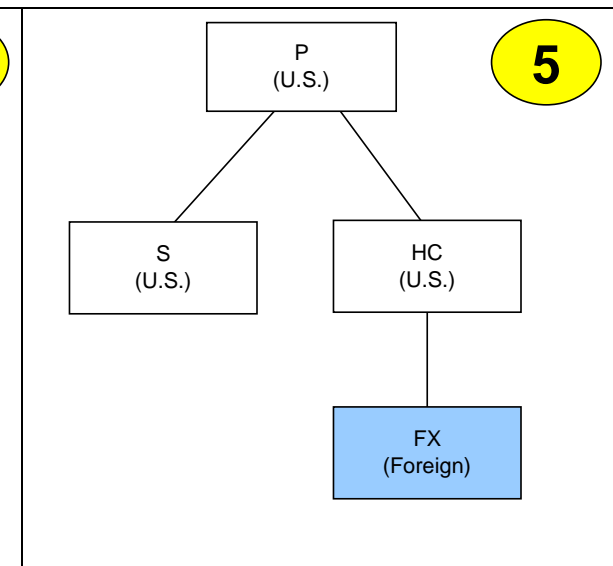
S Contributes FX Stock (1/1/86)



S Distributes HC Stock (12/31/86)



Ending Point



A distribution by S of the stock of FX would trigger 311(b) gain that would be characterized, all or in part, as dividend income under section 1248.

Section 1248(e) provides that if HC is treated as formed or availed of principally for holding the stock of FX, then the distribution by S of the stock of HC is treated as a distribution of the stock of FX.

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