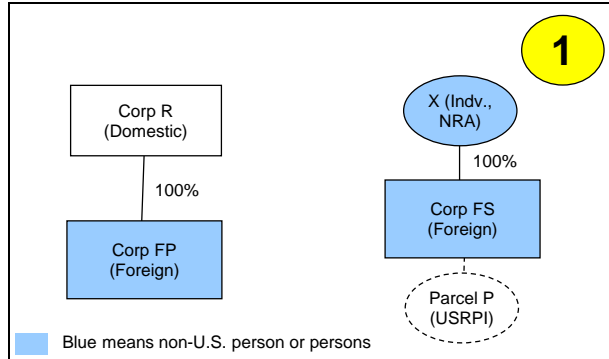
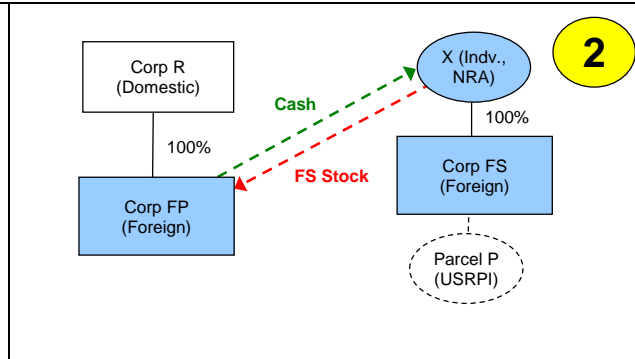


Foreign Corporations: Liquidating Distributions of U.S. Real Property Interests

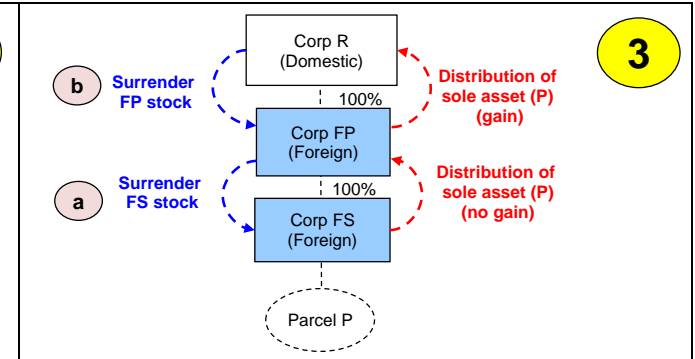
Initial Structure



Acquisition of Corp FS (1986)



Liquidations (1988 & 1989)



R, a domestic corporation, has owned all of the outstanding stock of FP, a Country J corporation, since the incorporation of FP in 1986. In 1986, FP purchased all of the outstanding stock of FS, a country J corporation, from X, an unrelated nonresident alien individual. X was not subject to U.S. income taxation on the gain from the disposition of the FS stock. The only asset owned by FP is all of the outstanding stock of FS. The only asset ever owned by FS is Parcel P, a U.S. real property interest as defined in section 897(c)(1)(A)(i) which it purchased in 1983. Parcel P has a fair market value of \$500y, and FS has a basis of \$100y in Parcel P.

FS liquidated under section 332(a) in June 1988, and distributed Parcel P to FP. FP liquidated under section 332(a) in June 1989, and distributed Parcel P to R. FP did not choose to apply the rules of Notice 89-85, to the distribution of Parcel P to R, nor could R and FP enter into a closing agreement pursuant to Rev. Proc. 90-19.

The distribution of Parcel P by FS to FP will not cause recognition of gain by FS if FS complies with the filing requirements of section 1.897-5T(d)(1)(iii) of the regulations. This is because FP is a foreign corporation, it will be subject to U.S. income taxation on a subsequent disposition of Parcel P under the rules of section 1.897-5T(d)(1), and it takes a carry-over basis of \$100y in Parcel P under section 334(b)(1).

Corp FP must recognize gain on the distribution of a U.S. real property interest under section 1.897-5T(c)(2)(ii)(B) of the regulations as in effect prior to August 1, 1989, where Corp FP acquired the U.S. real property interest in a liquidating distribution under section 332(a) from another foreign corporation, the stock of which it purchased from a foreign person or entity that was not subject to U.S. income taxation on the disposition. This holding also applies to any liquidation after July 31, 1989, if the rules of section 1.897-5T(c)(2)(ii)(B), as in effect prior to August 1, 1989, apply to such liquidation. See Notice 89-85. The result would be similar under the modified provision of section 1.897-5T(c)(2)(ii)(B) as in effect after July 31, 1989. See Notice 89-85. Now also see Notice 2006-46.

Ending Point

