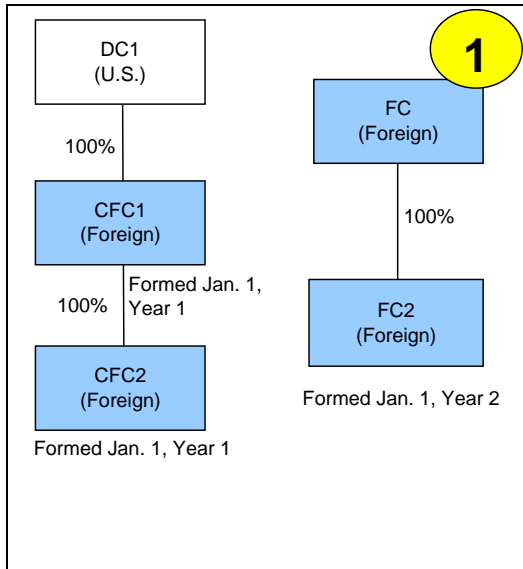
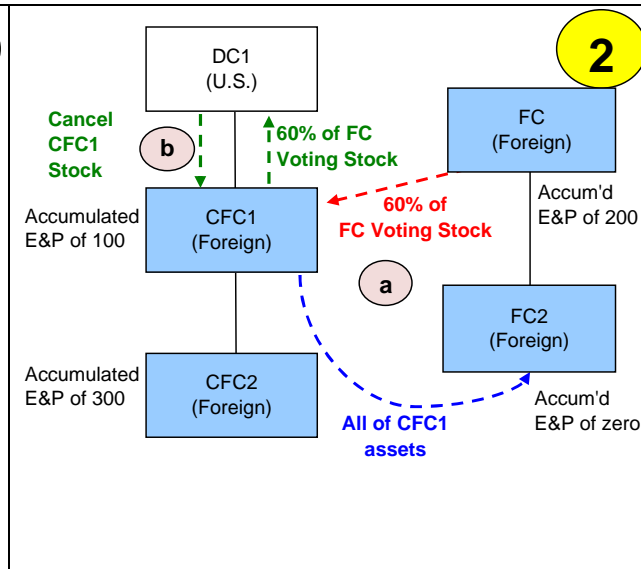


**Section 1248 Gain - Sale After  
Triangular C Reorganization**

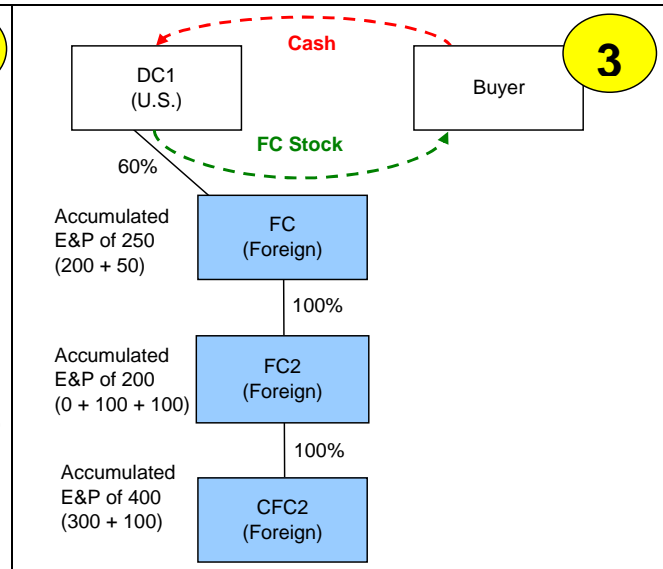
**Initial Structure**



**Triangular C Reorganization  
(Dec. 31, Year 3)**



**Sales of CFCs (Dec. 31, Year 5)**



DC1, a domestic corporation, has owned all the stock of CFC1, a foreign corporation, since its formation on Jan. 1, year 1. CFC1 has owned all the stock of CFC2, a foreign corporation, since its formation on Jan. 1, year 1. FC, a foreign corporation that is not a controlled foreign corporation, has owned all of the stock of FC2, a foreign corporation, since its formation on Jan. 1, year 2. On December 31, year 3, pursuant to a restructuring transaction that was a triangular reorganization described in section 368(a)(1)(C), CFC1 transfers all of its assets, including the CFC2 stock, to FC2 in exchange for 60% of the voting stock of FC. CFC1 transferred the voting stock of FC to DC1 and the CFC1 stock was cancelled. Pursuant to section 1223(1), DC1 is considered to have held the stock of FC since Jan. 1, year 1. Under section 1223(2), FC2 is considered to have held the stock of CFC2 since Jan. 1, year 1. On Dec. 31, year 3, CFC1 has \$100 of earnings and profits, CFC2 has \$300 of earnings and profits, FC has \$200 of earnings and profits, and FC2 has no earnings and profits. From Jan. 1, year 4, until Dec. 31, year 5, FC (now a controlled foreign corporation) accumulates an additional \$50 of earnings and profits. From Jan. 1, year 4 until Dec. 31, year 5, CFC2 accumulates an additional \$100 of earnings and profits. FC2, a controlled foreign corporation after the restructuring transaction, accumulates \$100 of earnings and profits from Jan. 1, year 4, until December 31, year 5. On December 31, year 5, DC1 sells its stock in FC.

There is \$550 of earnings and profits attributable to the stock of FC sold by DC1. This amount consists of all \$400 of the CFC1 and CFC2 earnings and profits accumulated before the restructuring transaction (see also section 1248(c)(2)), and 60% of the \$250 of the earnings and profits accumulated by FC, FC2, and CFC2 after the restructuring transaction.

**Ending Point**

