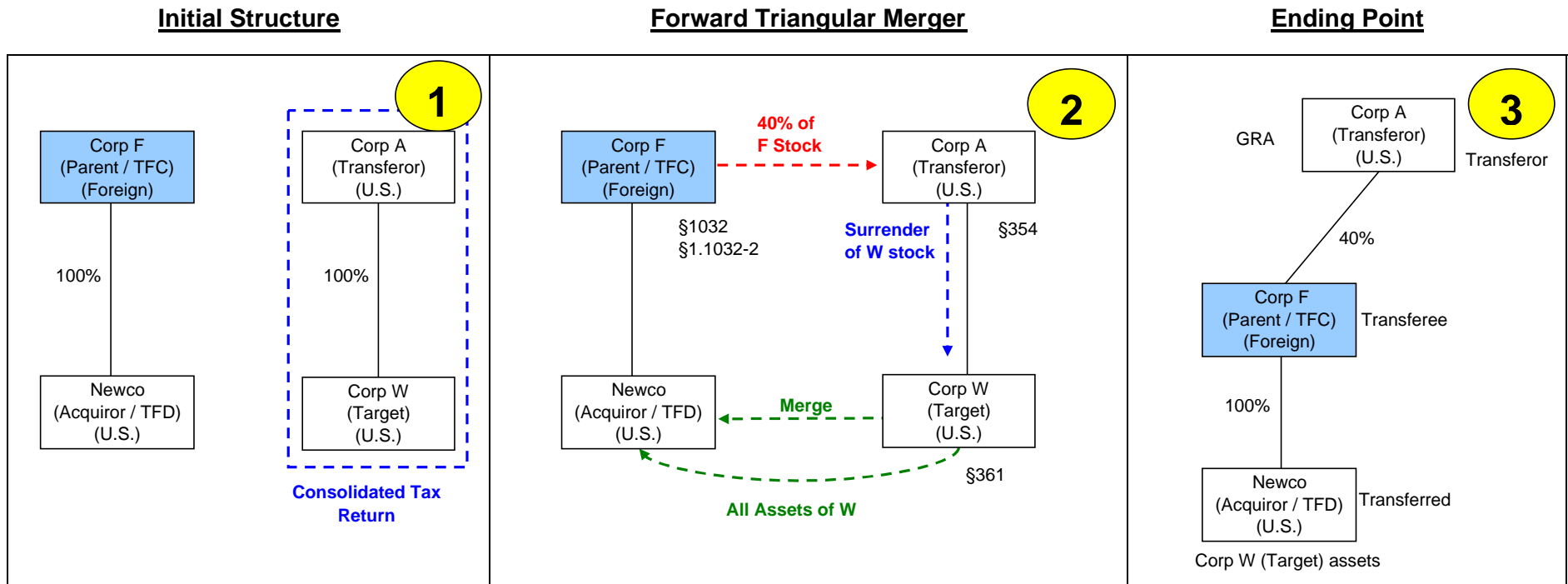


**Reg. 1.367(a)-3(d)(3), Example 1
368(a)(1)(A) / (a)(2)(D)**

**Indirect Stock Transfer -
Forward Triangular Merger (40%)**

Copyright © 2007 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



F, a foreign corporation, owns all the stock of Newco, a domestic corporation. A, a domestic corporation, owns all of the stock of W, also a domestic corporation. A and W file a consolidated Federal income tax return. A does not own any stock in F (applying the attribution rules of section 318, as modified by section 958(b)). In a reorganization described in sections 368(a)(1)(A) and (a)(2)(D) ("forward triangular merger"), Newco acquires all of the assets of W, and A receives 40% of the stock of F in an exchange described in section 354.

The reorganization is subject to the indirect stock transfer rules. A was a 5% shareholder of W and A did not receive more than 50% of F stock. In order to avoid gain recognition, A must file a 5 year GRA and comply with the necessary reporting requirements. If F disposes of Newco stock within the 5 year term of the GRA, then A must recognize gain in the year of the original transfer (or in the year of disposition if a Reg. 1.367(a)-8(b)(1)(vii) election was made).