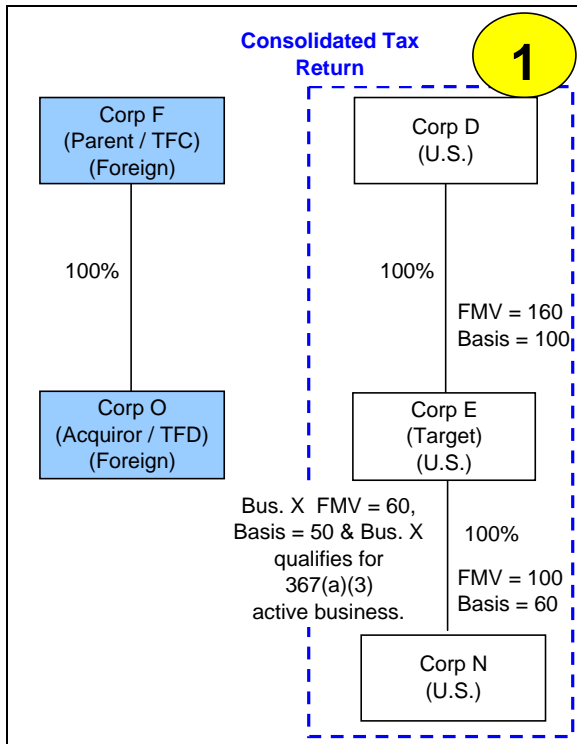


**Reg. 1.367(a)-3(d)(3), Example 12**  
**368(a)(1)(C) & 368(a)(2)(C)**  
 (formerly Example 9)

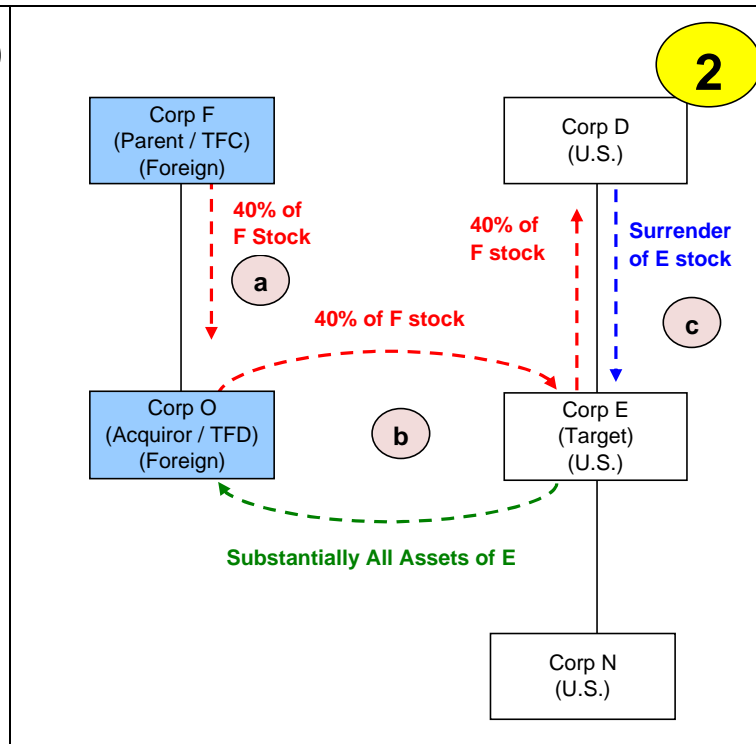
**Indirect Stock Transfer -  
 Triangular C Reorganization**

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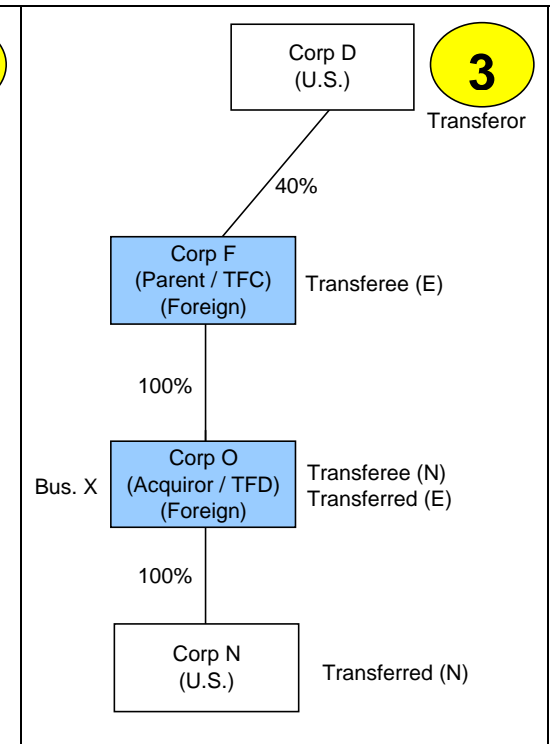
**Initial Structure**



**Triangular C Reorganization**



**Ending Point**



F, a foreign corporation, owns all of the stock of O, also a foreign corporation. D, a domestic corporation, owns all of the stock of E, also a domestic corporation, which owns all of the stock of N, also a domestic corporation. Prior to the transactions described in this Example 12, D, E and N filed a consolidated income tax return. D has a basis of \$100 in the stock of E, which has a fair market value of \$160. The N stock has a fair market value of \$100, and E has a basis of \$60 in such stock. In addition to the stock of N, E owns the assets of Business X. The assets of Business X have a fair market value of \$60, and E has a basis of \$50 in such assets. Assume that the Business X assets qualify for nonrecognition treatment under section 367(a)(3). D does not own any stock in F (applying the attribution rules of section 318 as modified by section 958(b)). In a triangular reorganization described in section 368(a)(1)(C), O acquires all of the assets of E, and D exchanges its stock in E for 40% of the voting stock of F.

E's transfer of its assets, including the N stock, must be tested under the general rules of section 367(a) before consideration of D's indirect transfer of the stock of E. E's transfer of the assets of Business X qualify for nonrecognition under section 367(a)(3). E's transfer of its N stock could qualify for nonrecognition treatment if D satisfies the requirements in §1.367(a)-3T(e). O is the transferee foreign corporation; N is the transferred corporation. D is deemed to transfer the stock of a foreign corporation to F in a section 354 exchange and therefore may enter into a gain recognition agreement for such indirect stock transfer. As to this transfer, F is the transferee foreign corporation; O is the transferred corporation. The amount of the gain recognition agreement is \$60. See also section 367(a)(5) and any regulations issued thereunder.