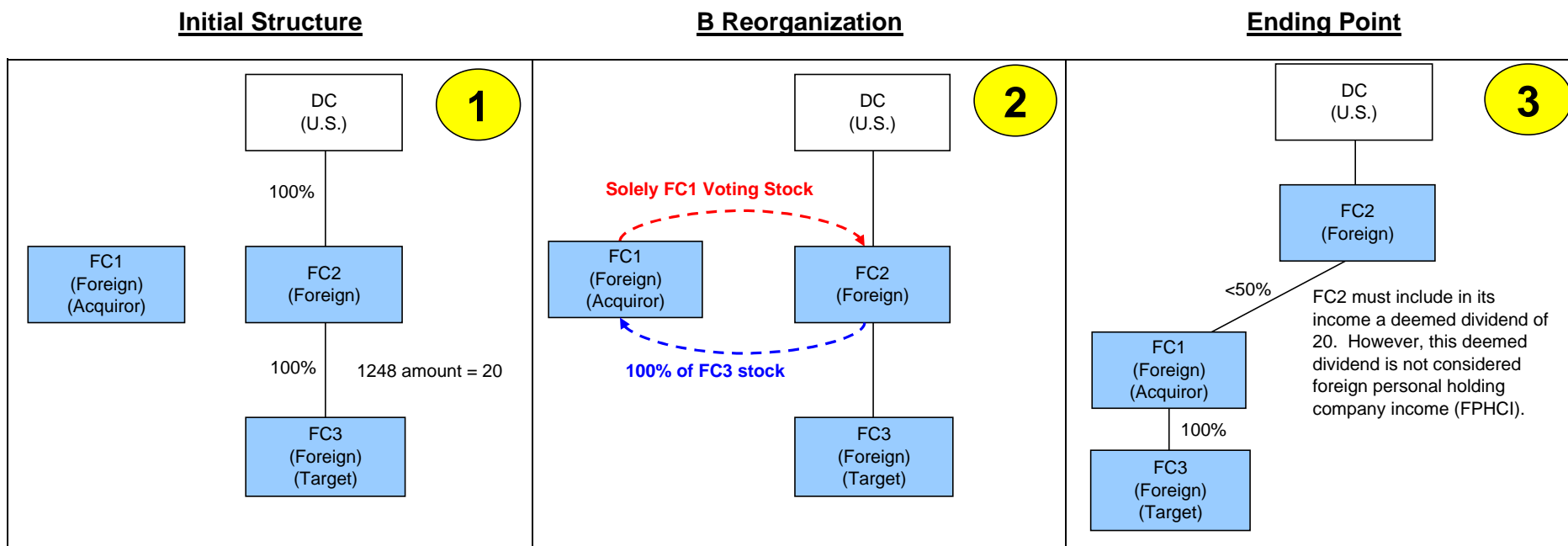


**Foreign to Foreign B Reorganization:  
Sec. 1248 Amount Inclusion is Not FPHCI**



FC1 is a foreign corporation that is owned, directly and indirectly, solely by foreign persons. DC is a domestic corporation that is unrelated to FC1. DC owns all of the outstanding stock of FC2, a foreign corporation. FC2 owns all of the outstanding stock of FC3, a foreign corporation. The section 1248 amount attributable to the stock of FC3 held by FC2 is \$20. In a section 368(a)(1)(B) reorganization, FC1 acquires from FC2 all of the stock of FC3 in exchange for FC1 voting stock. The FC1 voting stock received by FC2 does not represent more than 50 percent of the voting power or value of FC1's stock.

FC1 is not a controlled foreign corporation immediately after the exchange. FC2 must include in income, as a deemed dividend from FC3, the section 1248 amount (\$20) attributable to the FC3 stock that FC2 exchanged. The deemed dividend is treated as a dividend for purposes of the Internal Revenue Code. However, the deemed dividend is not foreign personal holding company income (FPHCI) to FC2.