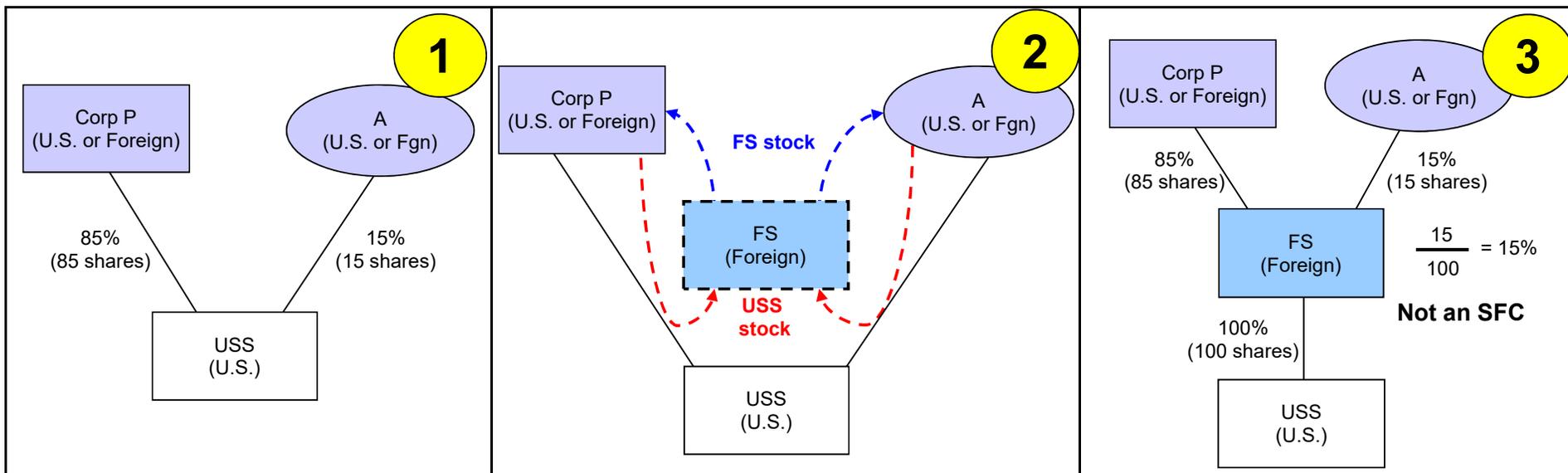


Outbound 351 of Stock as an Internal Group Restructuring

Initial Structure

Outbound 351 of Stock

Ending Point



P, a corporation, owns 85 of the 100 outstanding shares of USS, a domestic corporation. The remaining 15 shares of USS stock are held by A, a person unrelated to P. P and A transfer their shares of USS stock to FS, a foreign corporation, in exchange for 85 and 15 shares of FS stock, respectively.

FS has indirectly acquired substantially all the properties held directly or indirectly by USS pursuant to a plan. The acquisition is an internal group restructuring described in Reg. 1.7874-1(c)(2) because P, the common parent of the EAG after the acquisition, held directly or indirectly 80 percent or more of the stock (by vote and value) of USS before the acquisition, and after the acquisition P holds directly or indirectly 80 percent or more of the stock (by vote and value) of FS. Therefore, under Reg. 1.7874-1(c)(1), the FS stock held by P is included in the denominator, but not in the numerator of the ownership fraction. Accordingly, the ownership fraction is 15/100. FS is not a surrogate foreign corporation. The analysis is limited to a discussion of issues under section 7874, even though the example may raise other issues (for example, under section 367).