

Reg. 1.7874-2(k),  
Example 7

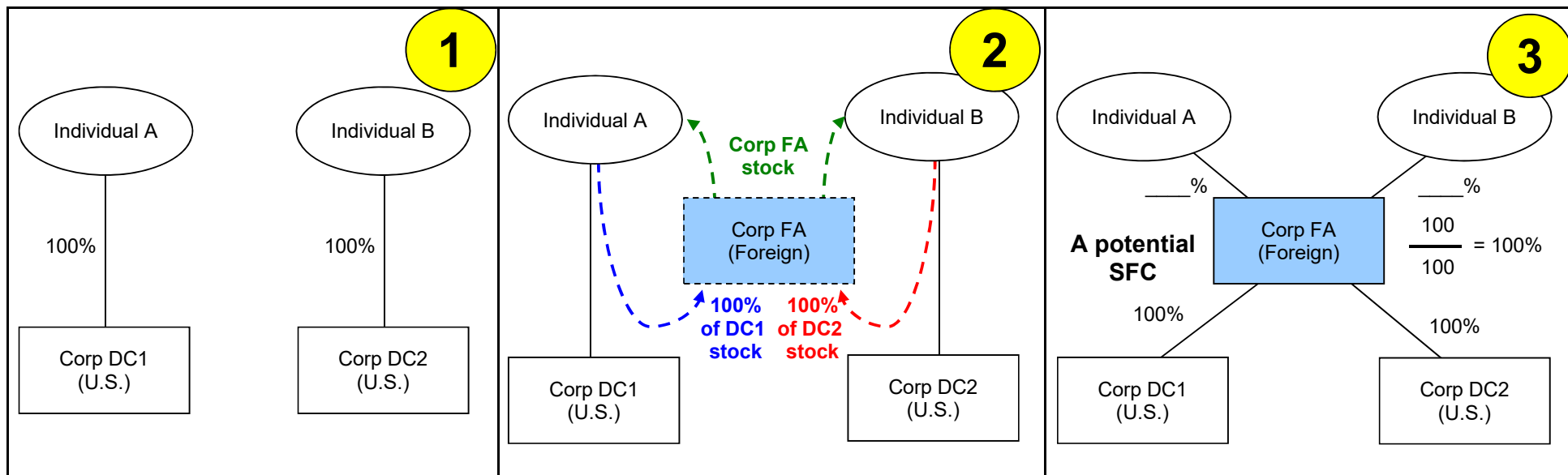
Indirect Asset Acquisition of  
Multiple Domestic Corps

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Initial Structure

Outbound 351 Exchange

Ending Point



DC1 and DC2 are domestic corporations. Individual A wholly owns DC1, and individual B wholly owns DC2. Pursuant to the same plan, A and B transfer all of their DC1 stock and DC2 stock to FA, a newly formed foreign corporation, in exchange solely for all 100 shares of FA stock outstanding.

For purposes of section 7874(a)(2)(B)(i) FA is treated as acquiring all of the properties held by DC1 and DC2 on the date of the stock acquisition. Because pursuant to the same plan FA acquired substantially all of the properties held by DC1 and DC2, for purposes of determining whether FA shall be treated as a surrogate foreign corporation, DC1 and DC2 shall be treated as a single domestic corporation, of which A and B are former domestic entity shareholders. Thus, individuals A and B are treated as holding all 100 shares of the FA stock by reason of holding stock of such domestic corporation, and the ownership fraction under section 7874(a)(2)(B)(ii) is 100/100, or 100%.

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