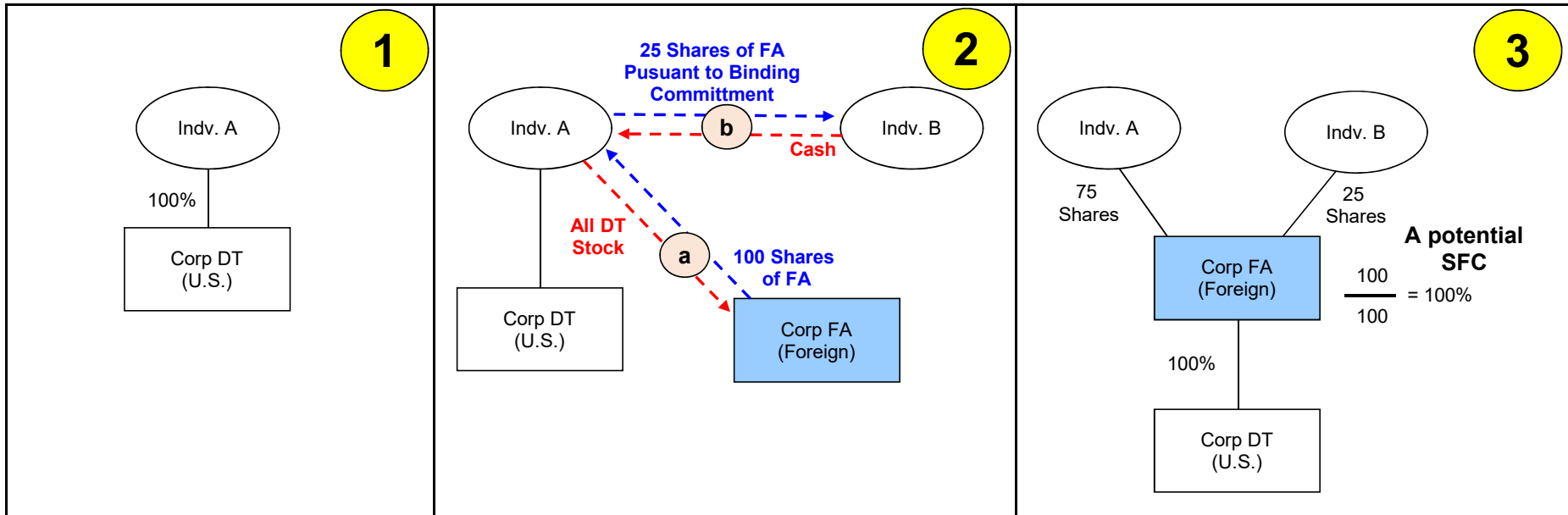


Initial Structure

Stock Transfers

Ending Point



Individual A wholly owns DT, a domestic corporation. FA, a newly formed foreign corporation, acquires all of the stock of DT from Individual A in exchange solely for 100 shares of FA stock. Pursuant to a binding commitment that was entered into in connection with FA's acquisition of the DT stock, Individual A sells 25 shares of FA stock to B, an unrelated person, in exchange for cash. For federal income tax purposes, the form of the steps of the transaction is respected.

Under Treas. Reg. §1.7874-2(f)(1), the 100 shares of FA stock received by Individual A are stock of a foreign corporation (FA) that is held by reason of holding stock in a domestic corporation (DT). Accordingly, such stock is described in Code §7874(a)(2)(B)(ii). Under Treas. Reg. 1.7874-5T(a), all 100 shares of FA stock retain their status as being described in Code §7874(a)(2)(B)(ii), even though Individual A sells 25 of the 100 shares in connection with the acquisition described in Code §7874(a)(2)(B)(i) pursuant to the binding commitment. Therefore, all 100 of the shares of FA stock are included in both the numerator and denominator of the ownership fraction (as defined in Treas. Reg. §1.7874-4T(i)(9)).