



Individual A owns all the stock of FT, a foreign corporation, and FT owns all the stock of DT, a domestic corporation. FT does not own any other property and has no liabilities. Pursuant to a reorganization described in Code §368(a)(1)(F), FT transfers all the stock of DT to FA, a newly formed foreign corporation, in exchange for 100 shares of FA stock (DT acquisition) and distributes the FA stock to Individual A in liquidation pursuant to Code §361(c)(1).

The 100 FA shares received by FT are stock of a foreign acquiring corporation described in Code §7874(a)(2)(B)(ii) and, under Treas. Reg. §1.7874-5T(a), the shares retain their status as such even though FT subsequently distributes the shares to Individual A pursuant to Code §361(c)(1). Thus, the 100 FA shares are included in the ownership fraction, unless the shares are treated as held by members of the EAG of purposes of applying Code §7874(a)(2)(A) and Treas. Reg. §1.7874-1 and are excluded from the ownership fraction under those rules.

For purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1, the 100 FA shares, which constitute transferred stock under Treas. Reg. §1.7874-6T(f)(2), are treated as held by members of the EAG only if an exception in Treas. Reg. §1.7874-6T(c) applies. See Treas. Reg. §1.7874-6T(b). The foreign-parented group exception described in Treas. Reg. §1.7874-6T(c)(2) applies. The requirement set forth in Treas. Reg. §1.7874-6T(c)(2)(i) is satisfied because before the DT acquisition, FT (the transferring corporation) and DT are members of the foreign-parented group of which FT is the common parent. The requirement set forth in Treas. Reg. §1.7874-6T(c)(2)(ii) is satisfied because after the acquisition, and taking into account all transactions related to the acquisition, FT would be a member of the EAG absent the distribution of the FA shares pursuant to Code §361(c)(1). Moreover, the DT acquisition qualifies as an internal group restructuring under Treas. Reg. §1.7874-1(c)(2). The requirement set forth in Treas. Reg. §1.7874-1(c)(2)(i) is satisfied because before the acquisition, 80 percent or more of the stock (by vote and value) of DT was held directly or indirectly by FT, the corporation that, without regard to the distribution of the FA shares pursuant to Code §361(c)(1), would be common parent of the EAG after the acquisition. See Treas. Reg. §1.7874-1T(c)(2)(iii). The requirement set forth in Treas. Reg. §1.7874-1(c)(2)(ii) is satisfied because after the acquisition, but without regard to the distribution of the FA shares pursuant to the Code §361(c)(1) distribution, FT would directly or indirectly hold 80 percent or more of the stock (by vote and value) of FA (the foreign acquiring corporation). See Treas. Reg. §1.7874-1T(c)(2)(iii). Therefore, the 100 FA shares are excluded from the numerator, but included in the denominator, of the ownership fraction. Accordingly, the ownership fraction is 0/100.