

**Temp. Reg. 1.7874-6T(g),
Example 4, Alternative Facts**

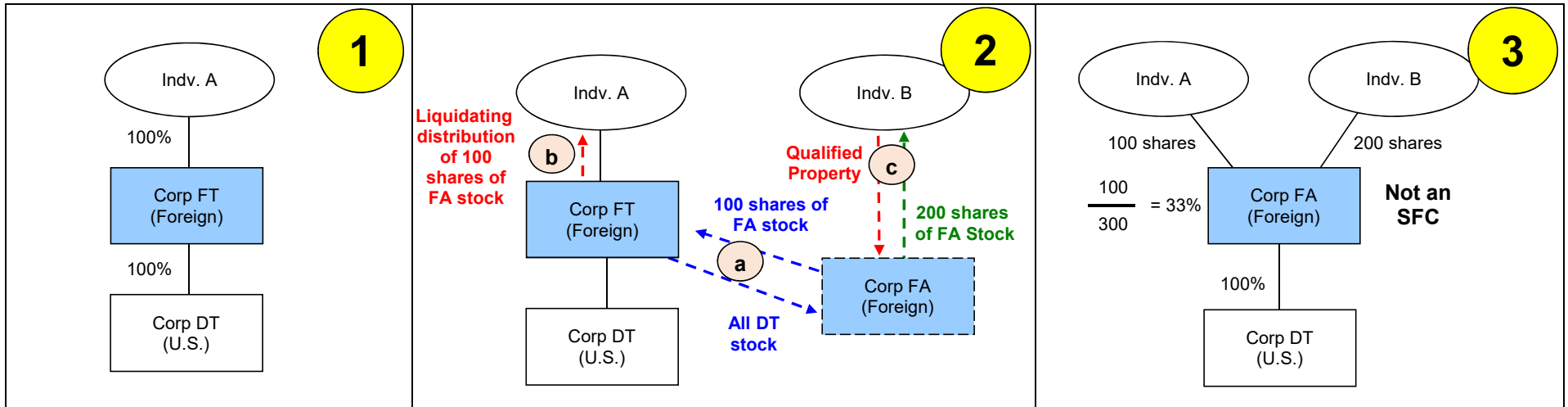
**Foreign Parented Group
Exception Not Available**

Copyright © 2016 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

Initial Structure

F Reorganization

Ending Point



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). In a transaction after and related to the DT acquisition, FA issues 200 shares of FA stock to Individual B in exchange for qualified property (within the meaning of Treas. Reg §1.7874-4T(i)(7)).

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.

The foreign-parented group exception does not apply because after the acquisition, and taking into account FA's issuance of the 200 FA shares to Individual B, FT would not be a member of the EAG absent FT's distribution of the 100 FA shares pursuant to Code §361(c)(1). Accordingly, the 100 FA shares received by FT are not treated as held by a member of the EAG for purposes of applying Code §7874(c)(2)(A) and Treas. Reg. §1.7874-1. As a result, the ownership fraction is 100/300.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)