

Reg. 1.7874-9T(f)
Example 1 Alternative Facts (iii)

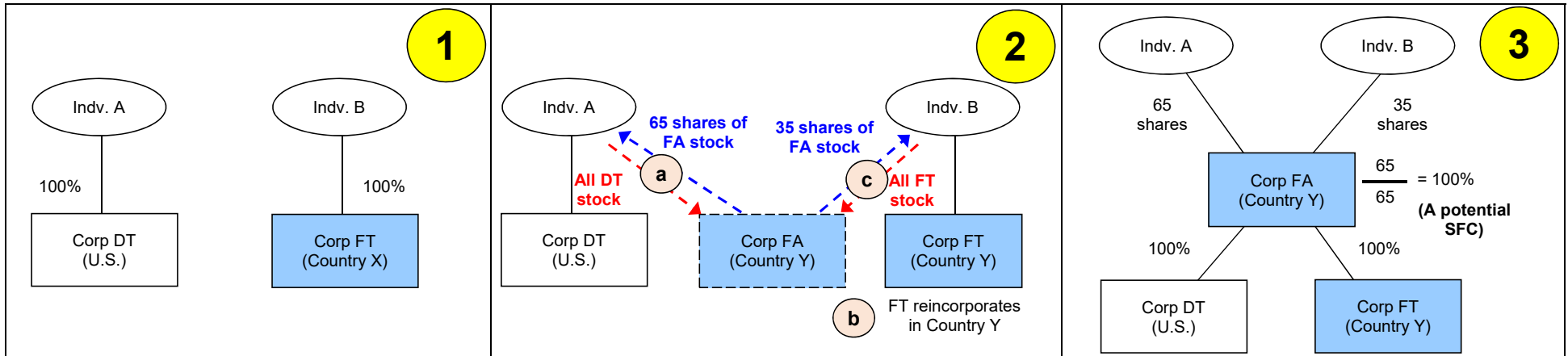
**Third-Country Transaction:
Change in Tax Residence**

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Initial Structure

Corp FA Formation & FT Reincorporation

Ending Point



FA, a newly formed foreign corporation that is subject to tax as a resident of Country Y, acquires all the stock of DT, a domestic corporation that is wholly owned by Individual A, solely in exchange for 65 shares of newly issued FA stock (DT acquisition). FT is a foreign corporation that is subject to tax as a resident of Country X and is wholly owned by Individual B. Pursuant to a plan that includes the DT acquisition, FT becomes subject to tax as a resident of Country Y by reincorporating in Country Y. FA then acquires all the stock of FT solely in exchange for the remaining 35 shares of newly issued FA stock (FT acquisition).

The FT acquisition is a foreign acquisition because, pursuant to the FT acquisition, FA (a foreign acquiring corporation) acquires 100 percent of the stock of FT and is thus treated as indirectly acquiring 100 percent of the properties held by FT (an acquired foreign corporation). See Treas. Reg. §1.7874-2(c)(1) and Treas. Reg. §1.7874-9T(e)(2). Moreover, Individual B is treated as receiving 35 shares of FA stock by reason of holding stock in FT. See §1.7874-2(f)(1)(i) and Treas. Reg. §1.7874-9T(e)(4). As a result, not taking into account the 65 shares of FA stock held by Individual A (a former domestic entity shareholder), 100 percent (35/35) of the stock of FA is held by reason of holding stock in FT and, thus, the foreign ownership percentage is 100. See Treas. Reg. §1.7874-9T(e)(3). Accordingly, the FT acquisition is a covered foreign acquisition. Therefore, because the FT acquisition occurs pursuant to a plan that includes the DT acquisition, the requirement set forth in Treas. Reg. §1.7874-9T(c)(1) of this section is satisfied.

The requirement set forth in Treas. Reg. §1.7874-9T(c)(2) is satisfied because, after the FT acquisition and all related transactions, the foreign country in which FA is subject to tax as a resident (Country Y) is different than the foreign country in which FT was subject to tax as a resident (Country X) before the FT acquisition and the reincorporation.

The requirement set forth in Treas. Reg. §1.7874-9T(c)(3) is satisfied because, not taking into account Treas. Reg. §1.7874-9T(b), the ownership fraction is 65/100 and the ownership percentage is 65.

Because the DT acquisition is a third-country transaction, the 35 shares of FA stock held by reason of holding stock in FT are excluded from the denominator of the ownership fraction. See Treas. Reg. §1.7874-9T(b). As a result, the ownership fraction is 65/65 and the ownership percentage is 100. The result would be the same if instead FA had directly acquired all of the properties held by FT in exchange for FA stock, for example, in a transaction that would qualify for U.S. federal income tax purposes as an asset reorganization under Code §368.