

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

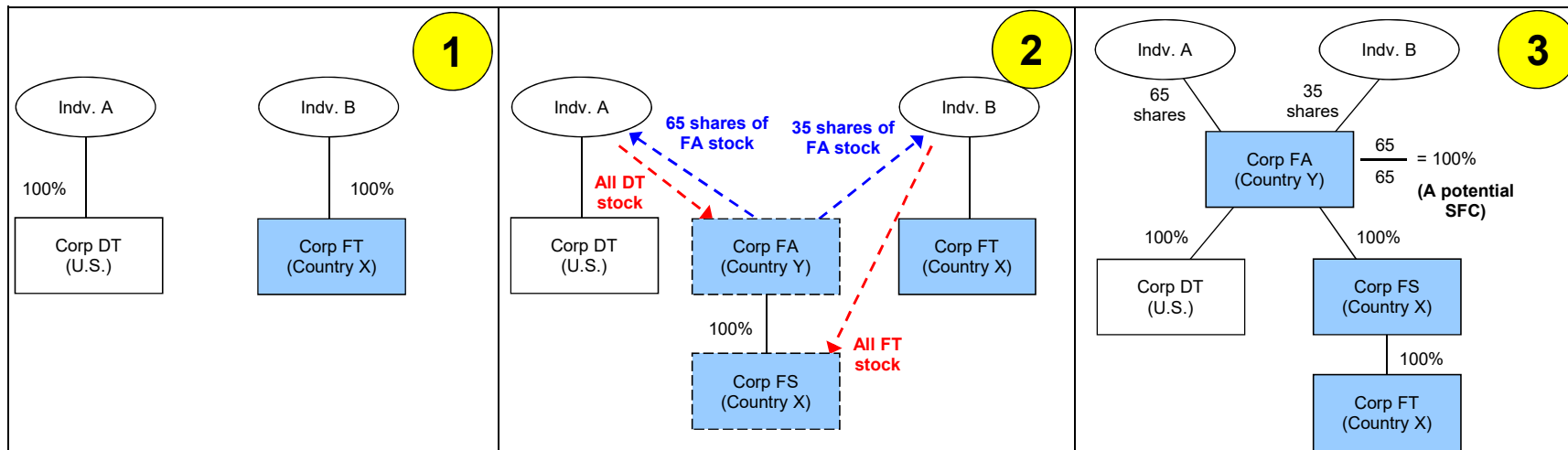
**Third-Country Transaction:
 Triangular Acquisition**

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Initial Structure

Formation of Corps FA & FS

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). Pursuant to a plan that includes the DT acquisition, FA forms FS, a wholly owned subsidiary that is subject to tax as a resident of Country X. FS acquires all the stock of FT, a foreign corporation that is subject to tax as a resident of Country X and wholly owned by Individual B, solely in exchange for 35 shares of newly issued FA stock (FT acquisition).

As a result of the FT acquisition, FS and FA are each treated as indirectly acquiring 100 percent of the properties held by FT. See Treas. Reg. §§1.7874-2(c)(1)(i) and (iii) and Treas. Reg. §1.7874-9T(e)(2). Accordingly, each of FS's and FA's indirect acquisition of properties of FT (an acquired foreign corporation) is a foreign acquisition. However, FS's indirect acquisition of FT's properties is not a covered foreign acquisition because no shares of FS stock are held by reason of holding stock in FT; thus, with respect to this foreign acquisition, the foreign ownership percentage is zero. See Treas. Reg. §1.7874-2(f) and Treas. Reg. §§1.7874-9T(e)(3) and (4). FA's indirect acquisition of FT's properties is a covered foreign acquisition because 35 shares of FA stock (the shares received by Individual B) are held by reason of holding stock in FT; thus, the foreign ownership percentage is 100 percent (35/35). See Treas. Reg. §1.7874-2(f)(1)(i) and Treas. Reg. §§1.7874-9T(e)(3) and (4). Accordingly, 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 all related transactions.

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.