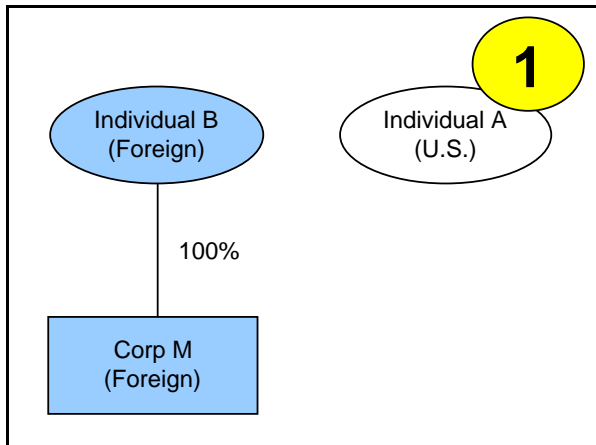


**Reg. 1.951-1(b)(2), Example 3**

**Subpart F Income:  
CFC for Last Part of Year**

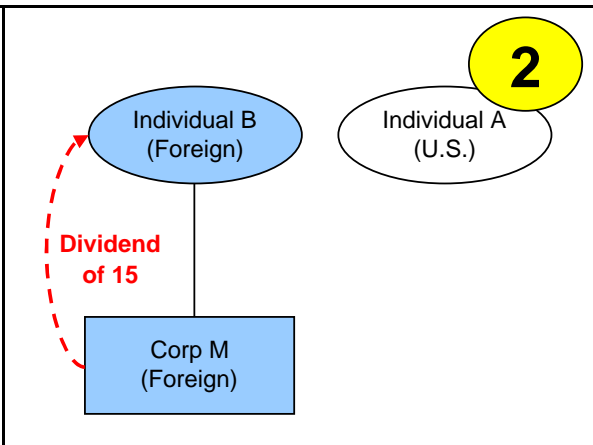
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**Jan. 1, 1963**



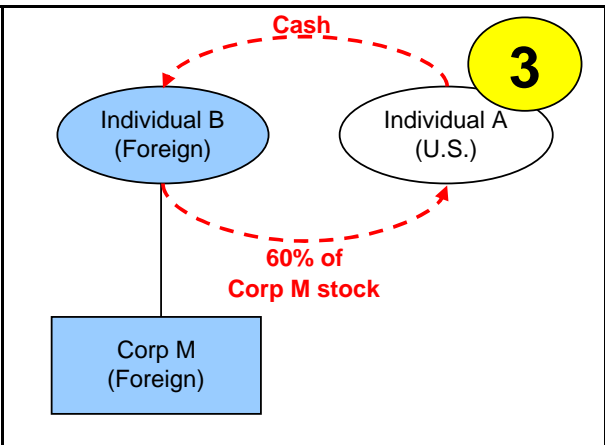
Non-CFC for 40% of calendar year

**Pre-May 26, 1963**

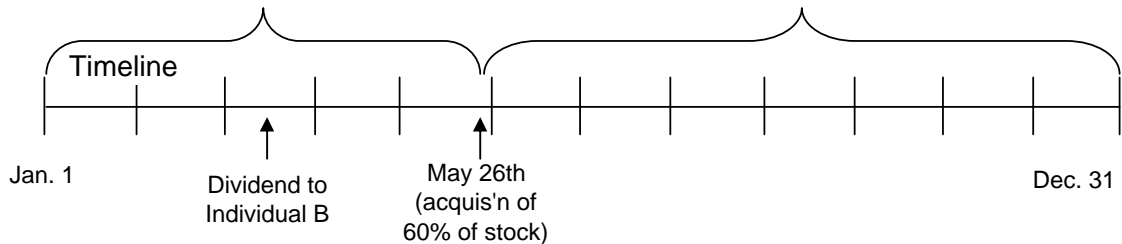


CFC for 60% of calendar year

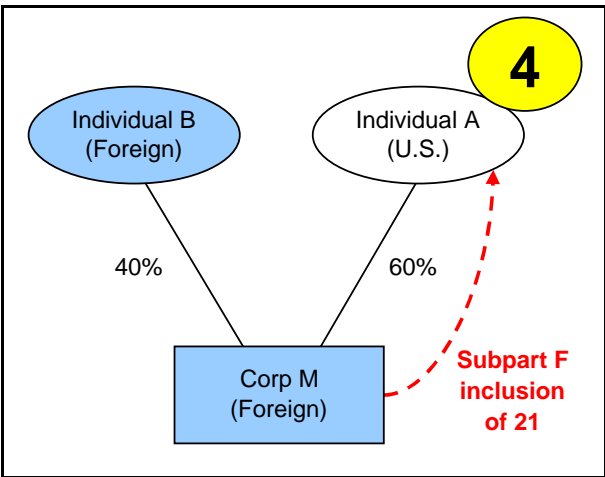
**May 26, 1963**



**Dec. 31, 1963**



B, a nonresident alien, owns 100 percent of the only class of stock of M, a foreign corporation at the beginning of 1963. On May 26, 1963, A acquired 60 percent of M corporation. Both A and M Corporation use the calendar year as a taxable year. Thus, M Corporation is a controlled foreign corporation for the period May 27, 1963, through December 31, 1963. For 1963, M Corporation derives \$100 of subpart F income and has \$100 of earnings and profits. Before A's acquisition of such stock, M Corporation had distributed a dividend of \$15 to B in 1963. A must include \$21 in his gross income for 1963 under section 951(a)(1)(A)(i) (100 X 60% of year = 60 [sub F for all stock]; 60 X 60% of stock = 36 [sub F related to 60% of stock]; reduced by dividends paid of 15 [36 - 15 = 21]). The reduction for dividends paid may be limited. See Reg. 1.951-1(b)(1)(ii).



Total Sub F	100
Stock Owned	<u>x 60%</u>
	60
Part Year CFC	<u>x 60%</u>
	36
Pre-Acq'n Div.	<u>- 15</u>
Sub F Recog'd	<u>21</u>

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