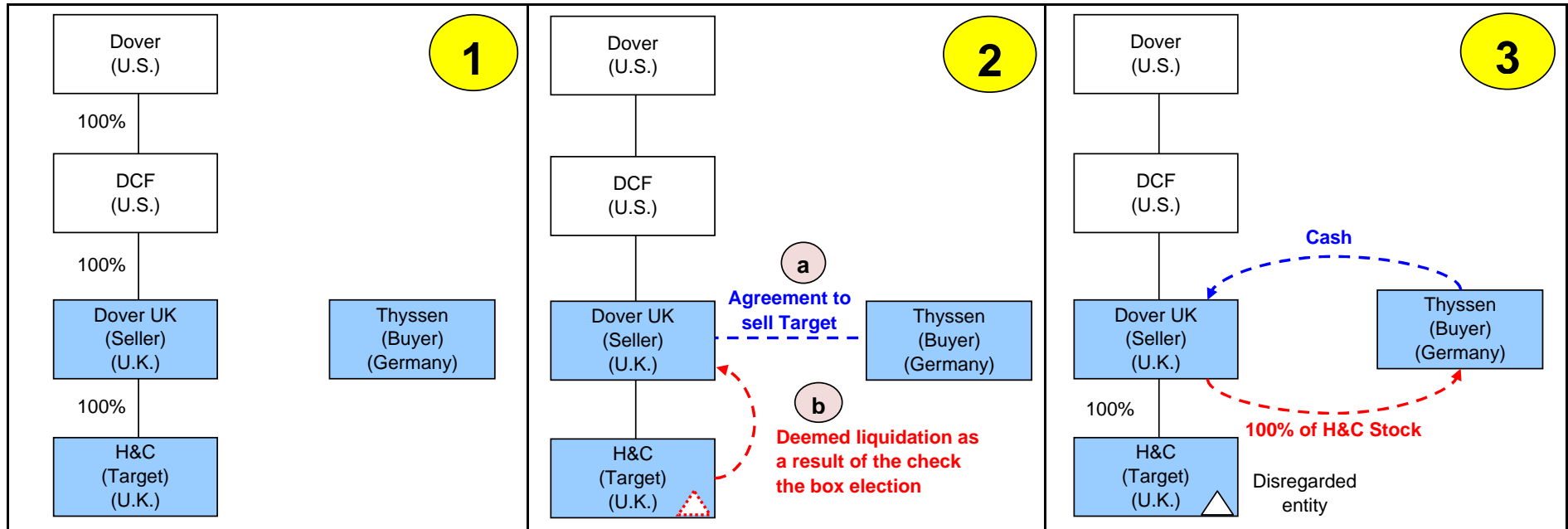


**Initial Structure**

**Check-the-Box Election and Agreement (June 30, 1997)**

**Stock Sale (July 11, 1997)**



Just prior to its sale of the stock of H&C, Dover made a check the box election to treat H&C as a disregarded entity. Reg. 301.7701-3. If such an election had not been made, then Dover UK's gain on the sale of the H&C stock would have triggered Subpart F income (FPHCI). Sec. 954(c)(1)(B)(iii). The effect of the check-the-box election was to treat Dover UK as having sold operating assets (of H&C), rather than selling H&C stock. Gains on the sale of active business assets are generally not treated as Subpart F income.

An incredible aspect of this case is that Dover did not make a timely check the box election. Rather, on December 3, 1998 Dover requested an extension to file the check the box election pursuant to Reg. 301.9100. On March 31, 2000 the IRS granted the extension.

△ Means "flow-thru" for U.S. tax purposes

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**Ending Point**

