

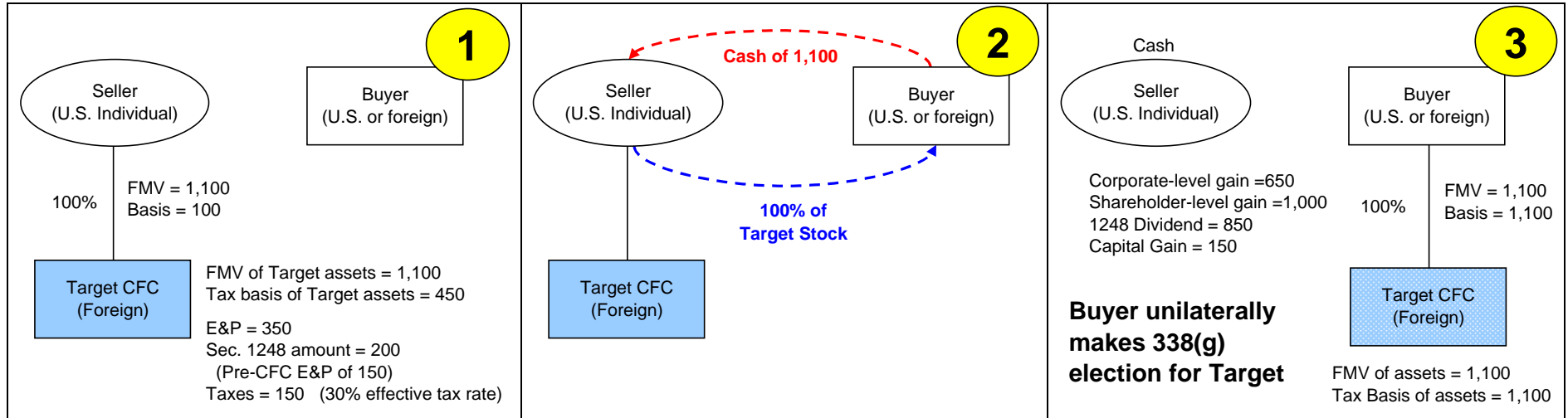
U.S. Individual Seller of CFC - QFC and 338(g) Election

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Initial Structure

Sale of Target

Ending Point



Assumptions

1. All amounts in U.S. dollars
2. Capital gains taxed at 15%
3. Foreign dividend is taxed at 15% [Target CFC is a qualified foreign corp. - see Sec. 1(h)(11)(C) and Notice 2003-69]
4. Seller has no other income
5. No foreign taxes are paid on the sale
6. No subpart F income triggered on 338 election

Section 902 deemed paid foreign taxes - Not applicable to individual shareholders

Foreign Tax Credit limitation - Not applicable (no foreign taxes paid or deemed paid)

Worldwide Income Excluding Gross-up = 1,000
Sec. 78 Gross-up = N/A
Worldwide Income Including Gross-up = 1,000
Foreign source income = 200 [Sec. 338(h)(16)]
Tentative U.S. tax = 150 (1,000 X 15%)

Tentative U.S. tax	150
Less: Lesser of foreign taxes deemed paid or FTC limitation	--
Net U.S. tax due	<u>150</u>

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