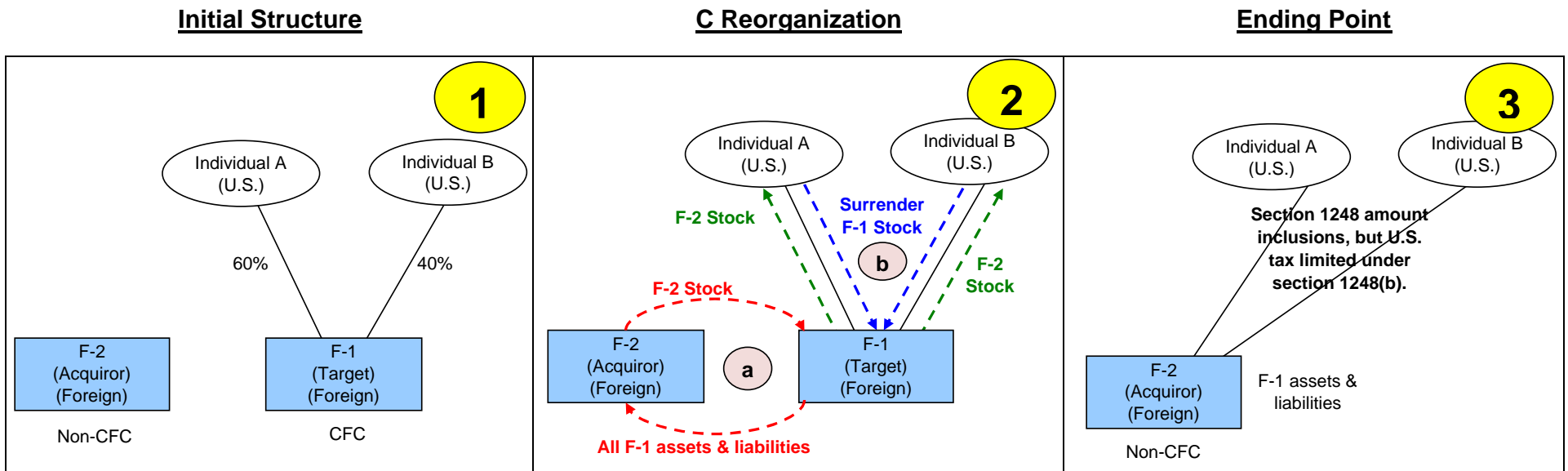


**Foreign-to-Foreign C Reorg -- CFC to Non-CFC:  
Section 1248(b) Limitation Applies to Deemed Dividend**



A and B are U.S. citizens who owned 60% and 40%, respectively, of the stock of F-1, a controlled foreign corporation. F-2, an unrelated foreign corporation, acquired all of the assets of F-1 solely in exchange for F-2 voting stock, which F-1 distributed to A and B in dissolution. The acquisition by F-2 of all of the assets of F-1 would qualify as a reorganization under section 368(a)(1)(C) if F-1 and F-2 were domestic corporations. F-2 is not a controlled foreign corporation.

The exchanges by A and B of all of their F-1 stock for voting stock of F-2 are exchanges to which section 367(b) of the Code applies. Because the exchanges of F-1 stock for F-2 stock are exchanges to which Reg. 7.367(b)-7(a) [current Reg. 1.367(b)-4] applies, A and B are required to include in their gross income the section 1248 amounts attributable to the stock exchanged, to the extent that the fair market value of the stock exchanged exceeds its adjusted basis.

Reg. 7.367(b)-2(d) [current Reg. 1.367(b)-2(c)] defines the term "section 1248 amount" as the net positive earnings and profits (if any) that would have been attributable to such stock and includible in income as a dividend under section 1248 and the regulations thereunder if the stock were sold by the shareholder. Section 1248(b) and Reg. 1.1248-4 provide for a limitation on the amount of tax required to be paid by an individual shareholder by reason of an amount included in income under section 1248(a) as a dividend. This limitation takes into account the foreign taxes paid by the foreign corporation.

Since section 1248(b) is generally intended to equalize the treatment under section 1248(a) between individual and corporate shareholders, and because the section 1248 amount included in income is based upon the principles of section 1248, the limitations of section 1248(b) should be applicable to the amount required to be included in the gross income of individual U.S. shareholders.