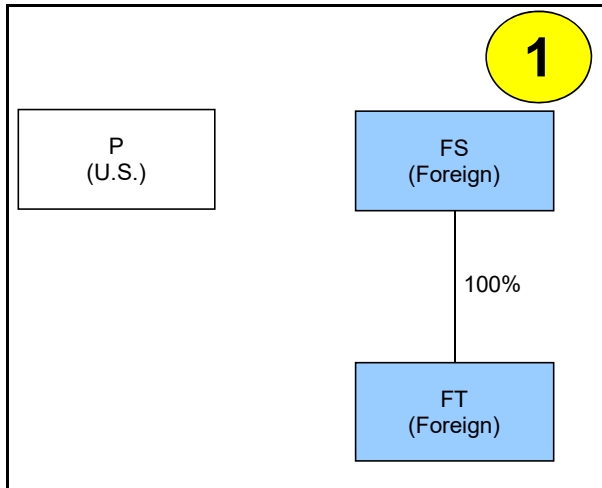
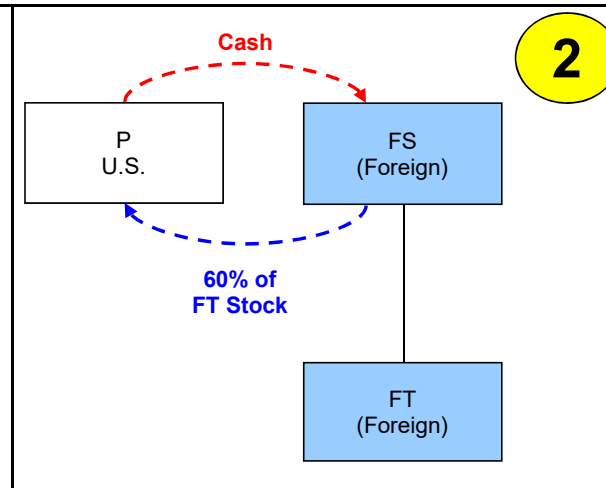


**Creeping Acquisition of CFC  
(Foreign Seller)**

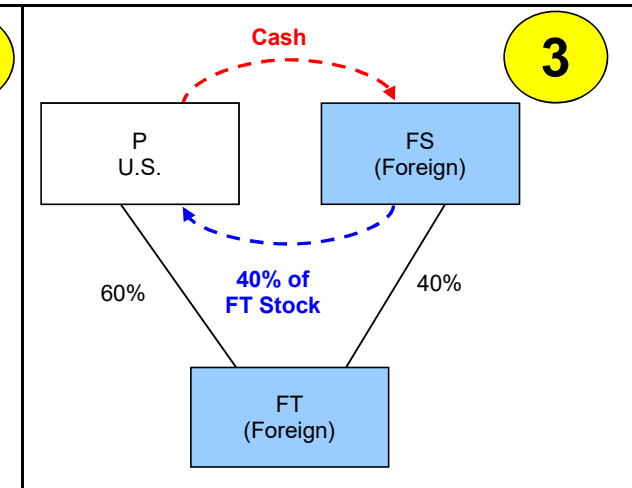
**Initial Structure**



**First Purchase (July 1, 1994)**



**Second Purchase & 338 Election (Dec. 31, 1994)**



FS owns 100% of the FT stock. On July 1, 1994, P buys 60% of the FT stock. On December 31, 1994, P buys the remaining 40% of the FT stock and makes a section 338 election for FT. For tax year 1994, FT has earnings and profits of \$1,000 (including earnings resulting from the deemed sale). The section 338 election results in \$500 of subpart F income. As a result of the section 338 election, P must include in gross income the following amount under section 951(a)(1)(A) (see §1.951-1(b)(2)):

FT's subpart F income for 1994 .....	\$500
Less: reduction under section 951(a)(2)(A) for period (1-1-94 through 7-1-94) during which FT is not a controlled foreign corporation (\$500 X 182/365) .....	249.32
Subpart F income as limited by section 951(a)(2)(A) .....	\$250.68
P's pro rata share of subpart F income as determined under section 951(a)(2)(A) (60% X 250.68) .....	\$150.41

**Ending Point**

