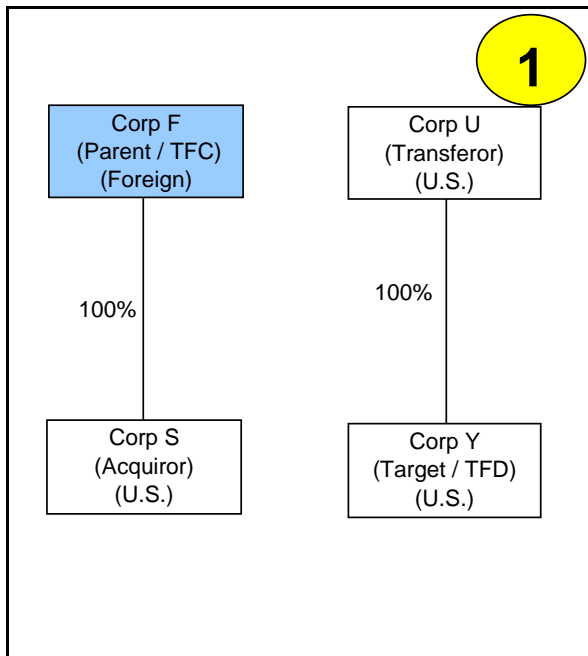


Reg. 1.367(a)-3(d)(3), Example 5
368(a)(1)(B)
 (formerly Example 4)

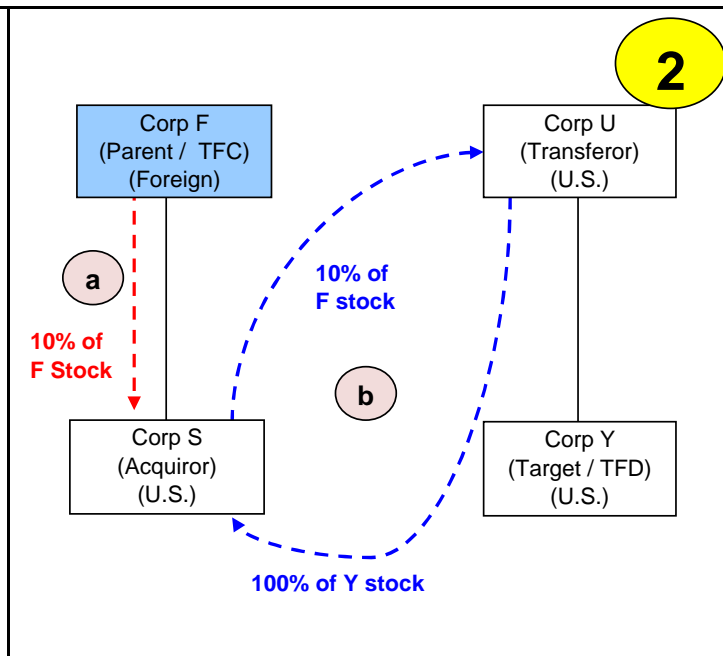
**Indirect Stock Transfer -
 Triangular B Reorganization**

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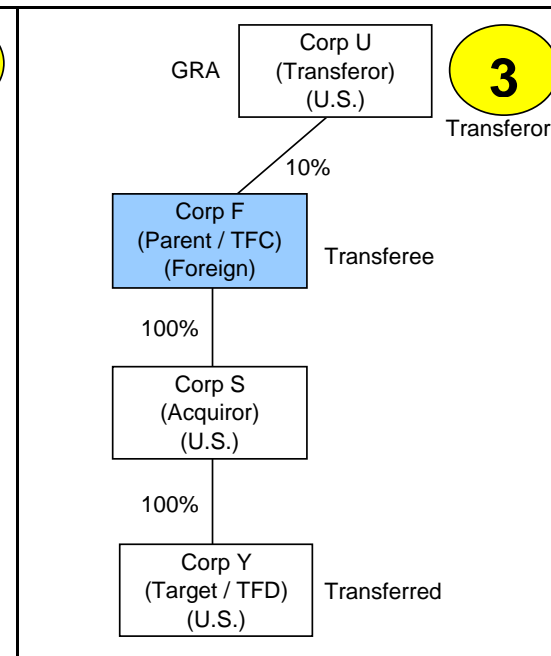
Initial Structure



Triangular B Reorganization



Ending Point



F, a foreign corporation, owns all the stock of S, a domestic corporation. U, a domestic corporation, owns all of the stock of Y, also a domestic corporation. U does not own any of the stock of F (applying the attribution rules of section 318, as modified by section 958(b)). In a triangular reorganization described in section 368(a)(1)(B), S acquires all the stock of Y, and U receives 10% of the voting stock of F.

U's exchange of Y stock for F stock will not be subject to section 367(a)(1), provided that all of the requirements of Treas. Reg. §1.367(a)-3(c)(1) are satisfied, including the requirement that U enter into a five-year gain recognition agreement. F is treated as the transferee foreign corporation and Y is treated as the transferred corporation. The gain recognition agreement would be triggered if F sold all or a portion of the stock of S.