

**Reg. 1.7874-7T(g)
Example 1**

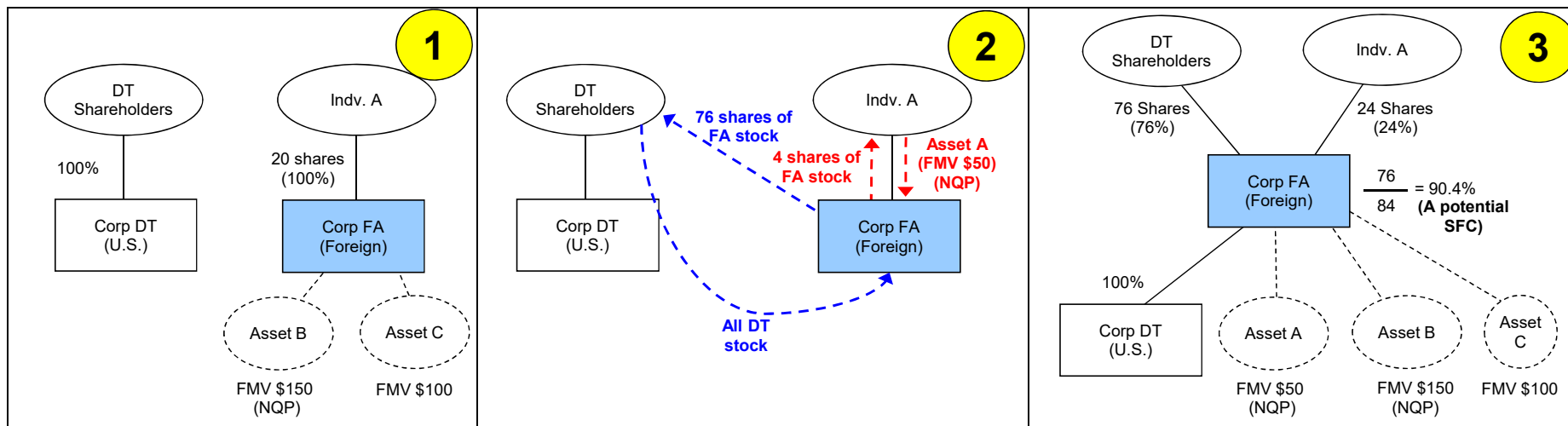
**Excess Nonqualified Property
Increases 7874 Ownership Fraction**

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Initial Structure

Stock Acquisition & Asset Contribution

Ending Point



Individual A owns all 20 shares of the sole class of stock of FA, a foreign corporation. FA acquires all the stock of DT, a domestic corporation, solely in exchange for 76 shares of newly issued FA stock (DT acquisition). In a transaction related to the DT acquisition, FA issues 4 shares of stock to Individual A in exchange for Asset A, which has a gross value of \$50x. On the completion date, in addition to the DT stock and Asset A, FA holds Asset B, which has a gross value of \$150x, and Asset C, which has a gross value of \$100x. Assets A and B, but not Asset C, are nonqualified property ("NQP") (within the meaning of § 1.7874-4T(i)(7)). Further, Asset C was not acquired in a transaction related to the DT acquisition.

The 4 shares of FA stock issued to Individual A in exchange for Asset A are disqualified stock under Treas. Reg. §1.7874-4T(c) and are excluded from the denominator of the ownership fraction pursuant to Treas. Reg. §1.7874-4T(b). (100 - 4 = 96).

Furthermore, additional shares of FA stock are excluded from the denominator of the ownership fraction pursuant to Treas. Reg. §1.7874-7T(b). This is because on the completion date, the gross value of all foreign group property is \$300x (the sum of the gross values of Assets A, B, and C), the gross value of all foreign group nonqualified property is \$200x (the sum of the gross values of Assets A and B), and thus 66.67% of the gross value of all foreign group property constitutes foreign group nonqualified property (\$200x/\$300x). Because FA has only one class of stock outstanding, the shares of FA stock that are excluded from the denominator of the ownership fraction pursuant to Treas. Reg. §1.7874-7T(b) are calculated by multiplying 20 shares of FA stock (100 shares less the 76 shares described in Code §7874(a)(2)(B)(ii) and the 4 shares of disqualified stock) by the foreign group nonqualified property fraction. The numerator of the foreign group nonqualified property fraction is \$150x (the gross value of Asset B) and the denominator is \$250x (the sum of the gross values of Assets B and C). Accordingly, 12 shares of FA stock are excluded from the denominator of the ownership fraction pursuant to Treas. Reg. §1.7874-7T(b) (20 shares multiplied by \$150x/\$250x). Thus, a total of 16 shares are excluded from the denominator of the ownership fraction (4 + 12). As a result, the ownership fraction is 76/84.