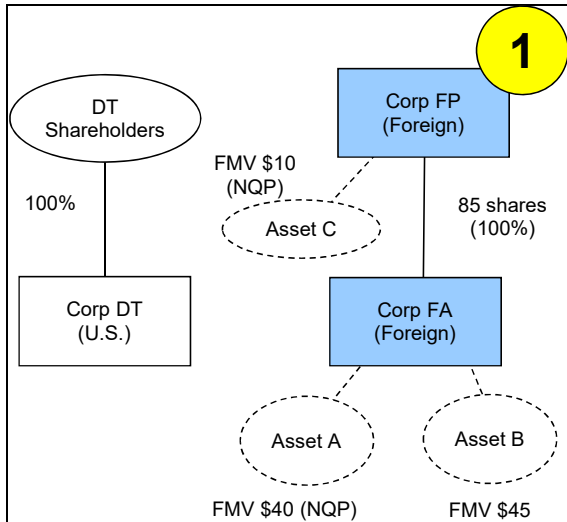


**Reg. 1.7874-7T(g)  
Example 3**

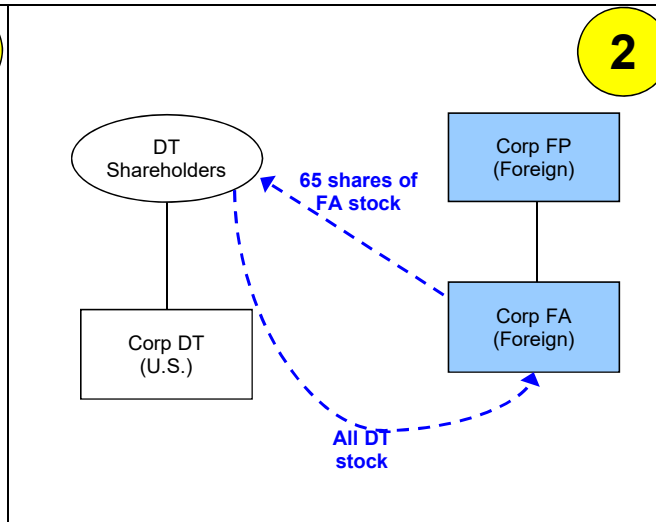
**Foreign Acquiring Corporation Not  
Common Parent of EAG**

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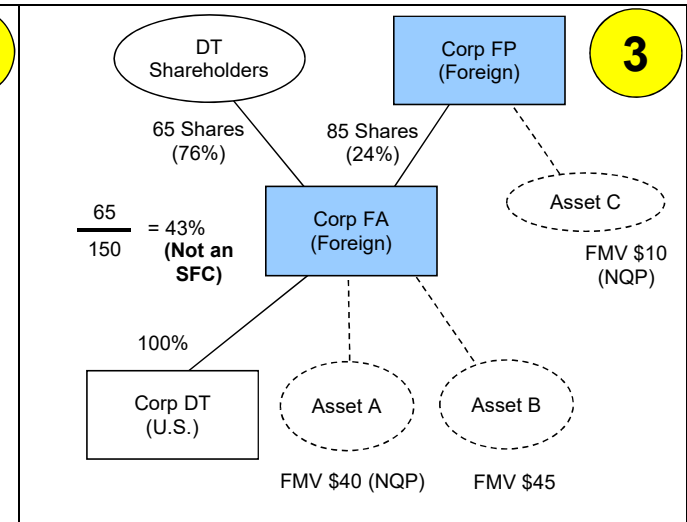
**Initial Structure**



**Stock Acquisition & Asset Contribution**



**Ending Point**



FP, a foreign corporation, owns all 85 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 65 shares of newly issued FA stock (DT acquisition). On the completion date, FA, in addition to all of the stock of DT, owns Asset A, which has a gross value of \$40x, and Asset B, which has a gross value of \$45x. Moreover, on the completion date, in addition to the 85 shares of FA stock, FP owns Asset C, which has a gross value of \$10x. Assets A and C, but not Asset B, are nonqualified property (within the meaning of Treas. Reg. §1.7874-4T(i)(7)). Further, Asset B was not acquired in a transaction related to the DT acquisition in exchange for nonqualified property.

Under Treas. Reg. §1.7874-7T(f)(2), Assets A and B, but not Asset C, are foreign group property. Although Asset C is held on the completion date by FP, a member of the expanded affiliated group, Asset C is not foreign group property because FP is not a member of the modified expanded affiliated group. This is the case because if the expanded affiliated group were determined based on FA as the common parent corporation, FP would not be a member of such expanded affiliated group (see Treas. Reg. §1.7874-7T(f)(4)(i)). Under Treas. Reg. §1.7874-7T(f)(1), Asset A, but not Asset B, is foreign group nonqualified property. Therefore, on the completion date, the gross value of all foreign group property is \$85x (the sum of the gross values of Assets A and B), and the gross value of all foreign group nonqualified property is \$40x (the gross value of Asset A). Accordingly, on the completion date, only 47.06% of the gross value of all foreign group property constitutes foreign group nonqualified property ( $\$40x/\$85x$ ). Consequently, Treas. Reg. §1.7874-7T(b) does not apply to exclude any FA stock from the denominator of the ownership fraction.