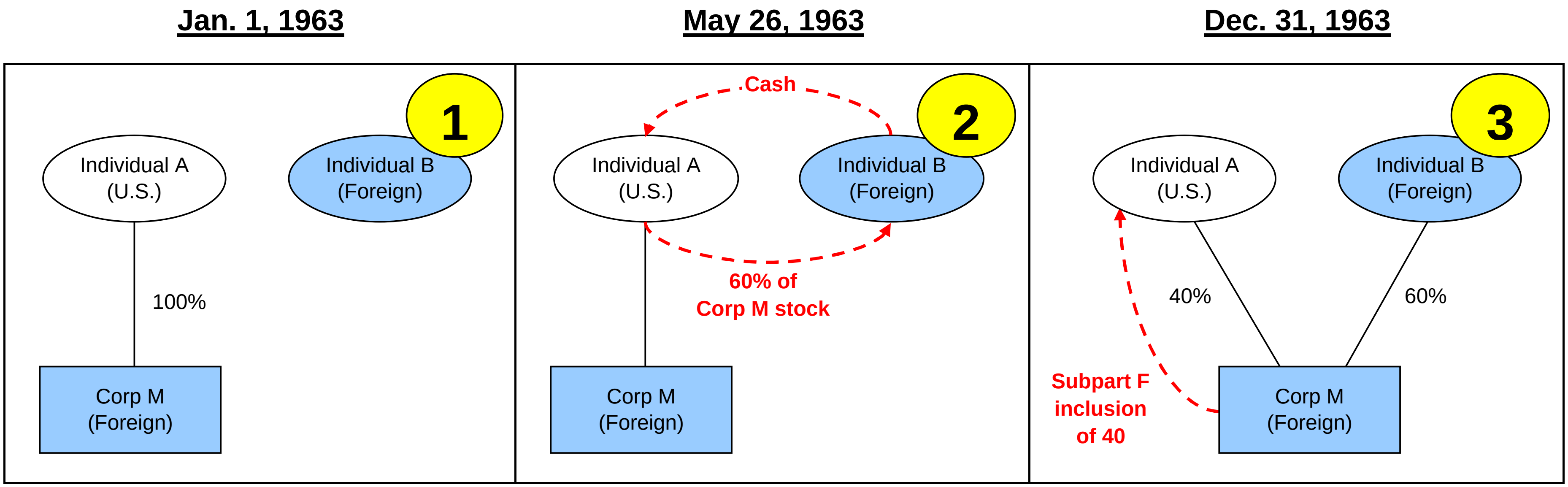
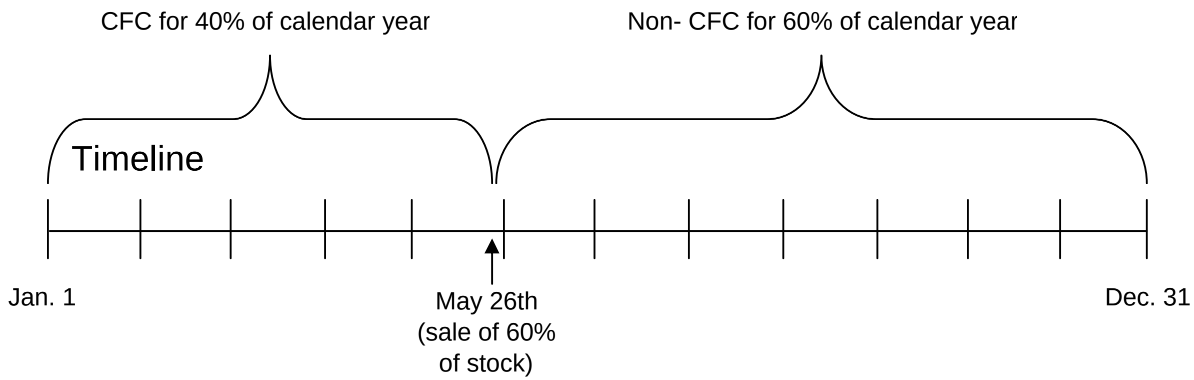
Watch on YouTube

Reg. 1.951-1(b)(2), Example 2

Subpart F Income: CFC for First Part of Year





A, a United States shareholder, owns 100 percent of the only class of stock of M, a controlled foreign corporation at the beginning of 1963. Both A and M Corporation use the calendar year as a taxable year. For 1963, M Corporation derives $100 of subpart F income, has $100 of earnings and profits, and makes no distributions. On May 26, 1963, A sells 60 percent of the stock to B, a nonresident alien. Thus, M Corporation is a controlled foreign corporation for the period January 1, 1963, through May 26, 1963. A must include $40 ($100 X 146/365) in his gross income for 1963 under section 951(a)(1)(A)(i).