

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

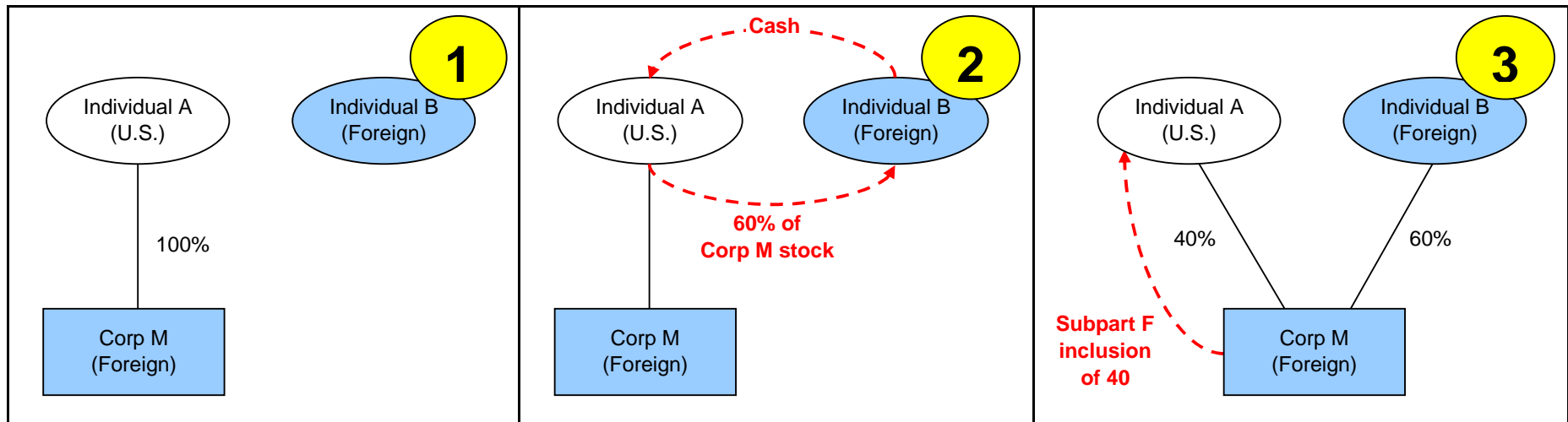
**Subpart F Income:
CFC for First Part of Year**

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Jan. 1, 1963

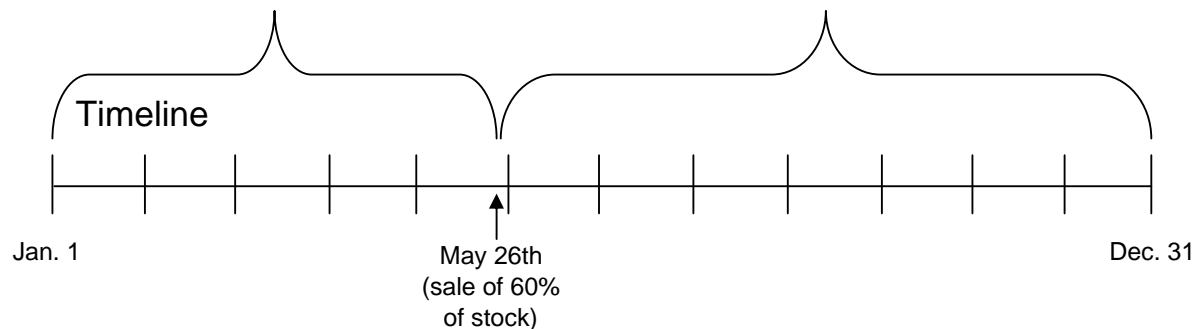
May 26, 1963

Dec. 31, 1963



CFC for 40% of calendar year

Non- CFC for 60% of calendar 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 ($\$100 \times 146/365$) in his gross income for 1963 under section 951(a)(1)(A)(i).

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