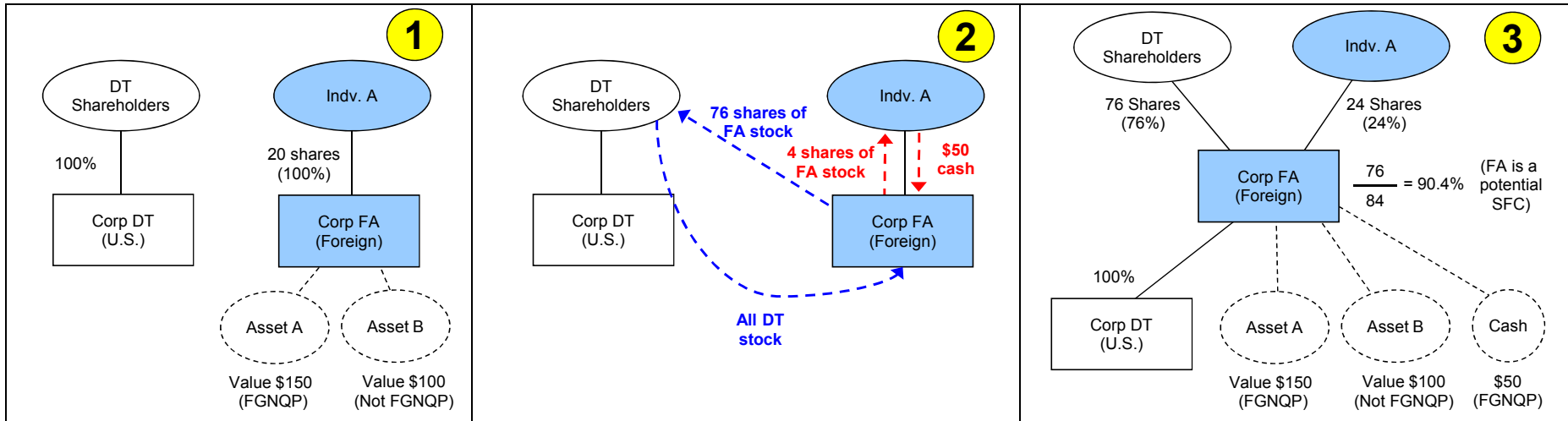


**Initial Structure**

**Stock Acquisition & Cash Contribution**

**Ending Point**



Corp FA, a foreign corporation, has 20 shares of a single class of stock outstanding, all of which are owned by Individual A. Corp FA acquires all the stock of Corp DT, a domestic corporation, solely in exchange for 76 shares of newly issued Corp FA stock (DT acquisition). In a transaction related to the DT acquisition, Corp FA issues four shares of stock to Individual A in exchange for \$50x of cash. After the DT acquisition, in addition to the Corp DT stock and \$50x of cash received from Individual A, Corp FA holds Asset A (gross value of \$150x), which is foreign group nonqualified property ("FGNQP"), and Asset B (gross value of \$100x), which is not FGNQP.

The 4 shares of Corp FA stock issued to Individual A in exchange for \$50x of cash, which is nonqualified property, are disqualified stock and excluded from the denominator of the ownership fraction pursuant to Treas. Reg. §1.7874-4T(b). (100 - 4 = 96).

After the DT acquisition, in addition to the DT stock, Corp FA has foreign group property ("FGP") with a gross value of \$300x, \$200x of which is FGNQP (Asset A and cash of \$50x). Accordingly, 66.67% of the gross value of all the FGP constitutes FGNQP (\$200x/\$300x). Because the 50% threshold is satisfied, a portion of the Corp FA stock will be excluded from the denominator of the ownership fraction under section 2.01(b) of Notice 2014-52. Because Corp FA has only one class of stock outstanding, the multiplicand of the computation is 20 shares (100 shares of Corp FA stock outstanding less the 76 shares of Corp FA stock that are held by reason of and the 4 shares of disqualified stock). Those 20 shares are multiplied by the FGNQP fraction. The numerator of the fraction is \$150x (\$200x less \$50x of cash that gives rise to disqualified stock) and the denominator is \$250x (\$300x less the \$50x of cash). Thus, the portion of the FA stock that is excluded from the denominator of the ownership fraction under section 2.01(b) of Notice 2014-52, is the product of 20 shares multiplied by \$150x / \$250x, or 12 shares. (100 - 4 - 12 = 84).

As a result, the denominator of the ownership fraction is 84 shares, with the result that the ownership fraction is 90.4% (76/84). Corp FA will be a surrogate foreign corporation ("SFC") if the EAG does not have substantial business activities in FA's country of incorporation.