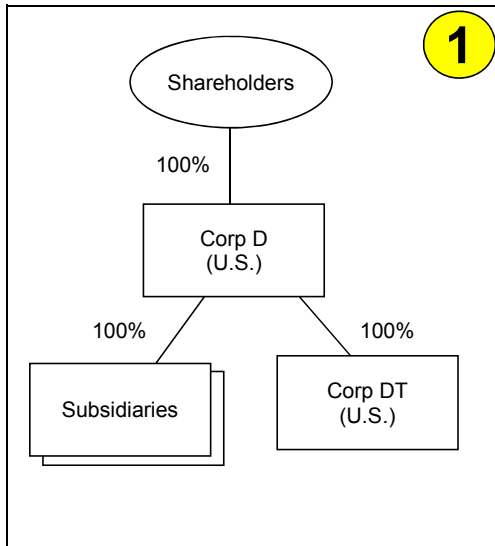
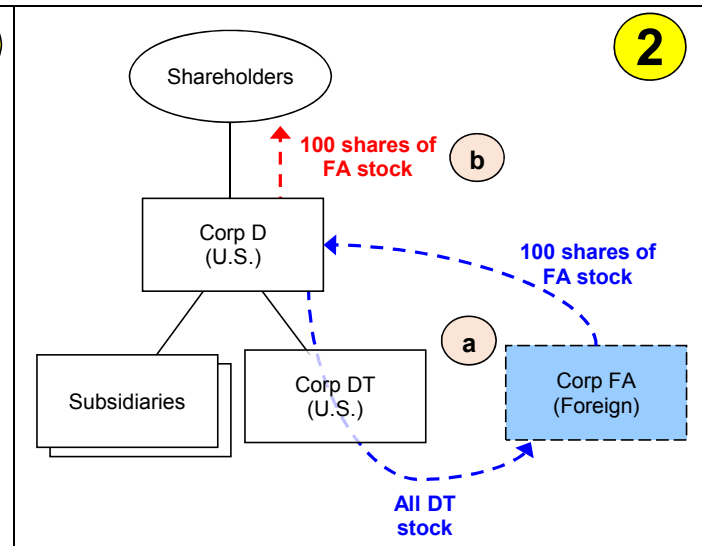


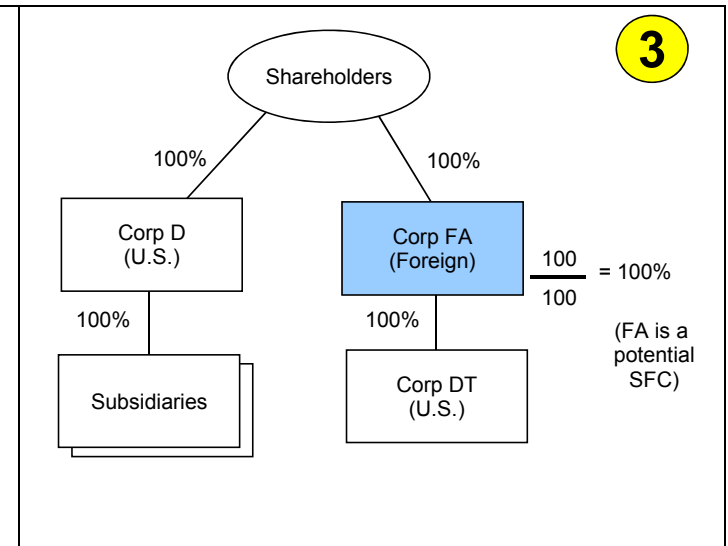
Initial Structure



Divisive D Reorganization (Spin-Off)



Ending Point



Corp D, a domestic corporation, owns all of the stock of Corp DT, also a domestic corporation, and stock of other subsidiaries. The Corp DT stock does not represent substantially all of the property of Corp D for purposes of Code §7874. Pursuant to a reorganization described in Code §368(a)(1)(D), Corp D transfers all the stock of Corp DT to Corp FA, a newly formed foreign corporation, in exchange solely for 100 shares of Corp FA stock (DT acquisition) and distributes all of the Corp FA stock to its shareholders pursuant to Code §361(c)(1) (subsequent distribution). Corp D is the common parent of a U.S.-parented group before and after the DT acquisition.

Under Treas. Reg. §1.7874-2(f)(1), the 100 shares of FA stock received by Corp D in the DT acquisition is stock of a foreign corporation (Corp FA) that is held by reason of holding stock in a domestic corporation (Corp DT). Accordingly, such stock is described in Code §7874(a)(2)(B)(ii). Under Treas. Reg. §1.7874-5T(a), all 100 shares of FA stock retain their status as being described in Code §7874(a)(2)(B)(ii) even though Corp D subsequently transfers all of the Corp FA stock to its shareholders in the subsequent distribution. Under section 2.03(b)(i) of Notice 2014-52, the Corp FA stock received by Corp D is not treated as held by a member of the EAG for purposes of applying the EAG rules. The exception provided in section 2.03(b)(ii) of Notice 2014-52 does not apply because, after the DT acquisition, the shareholders of Corp D and Corp FA are not members of the U.S.-parented group. Accordingly, the ownership fraction is 100/100.