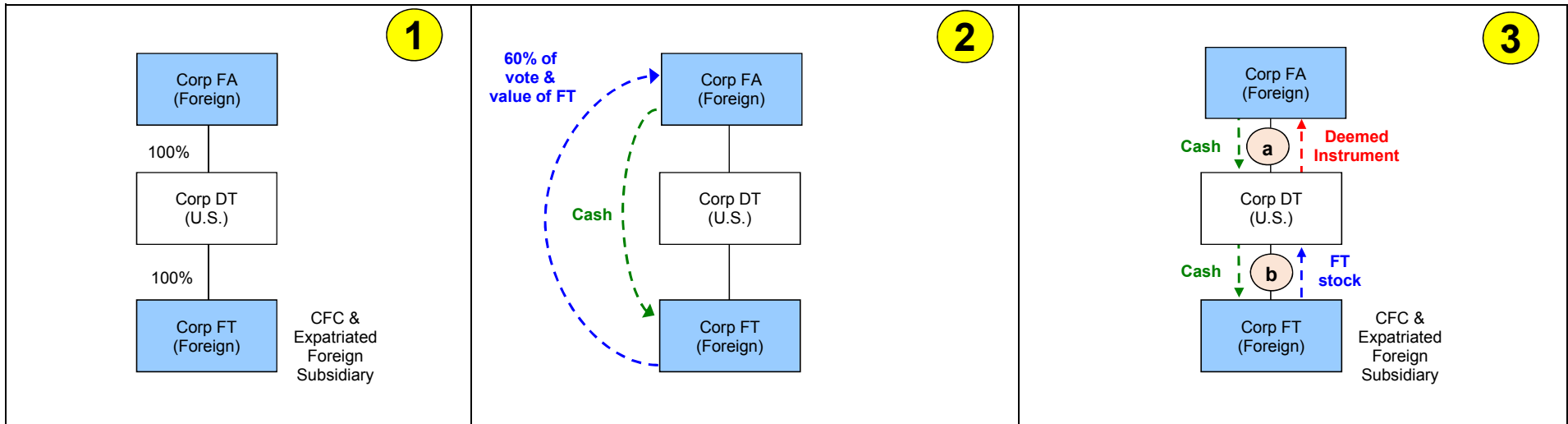


**Invalidation of Post-Inversion CFC
Decontrol Attempt Via Dilution**

Initial Structure

Attempt to "Decontrol" CFC

Recharacterization

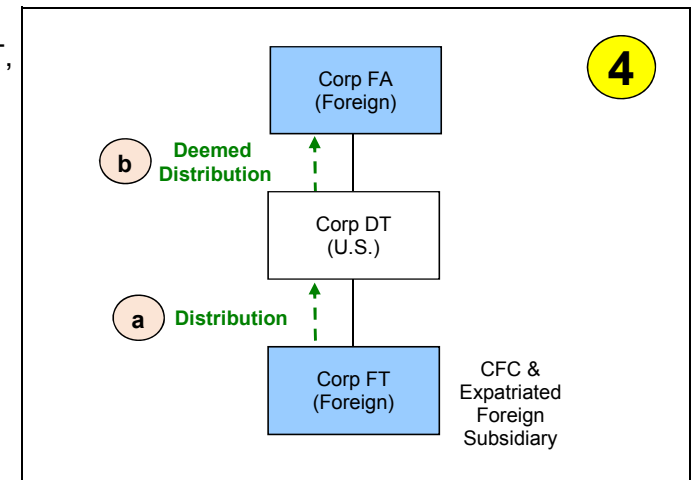


FA, a foreign corporation, wholly owns DT, a domestic corporation, which, in turn, wholly owns FT, a foreign corporation that is a CFC. FA acquired DT in an inversion transaction that was completed on January 1, 2015. Accordingly, DT is a domestic entity and FT is an expatriated foreign subsidiary. On February 1, 2015, FA acquires \$10x of FT stock from FT, representing 60 percent of total voting power and value of the stock of FT, in exchange for \$10x of cash.

FA's acquisition of the FT stock from FT is a specified transaction, because stock of an expatriated foreign subsidiary was transferred (by issuance) to a specified related person (FA). FA's acquisition of the FT stock is recharacterized as follows, with the result that FT continues to be a CFC:

- (1) DT is treated as having issued a deemed instrument to FA in exchange for \$10x of cash.
- (2) DT is treated as having contributed the \$10x of cash to FT in exchange for FT stock.

FT Stock Distribution Deemed Transactions



(3) Any distribution with respect to the FT stock actually acquired by FA will be treated as a distribution to DT, which, in turn, will be treated as making a matching distribution with respect to the deemed instrument that DT is treated as having issued to FA. FT is treated as the paying agent of DT with respect to the deemed instrument issued by DT to FA.