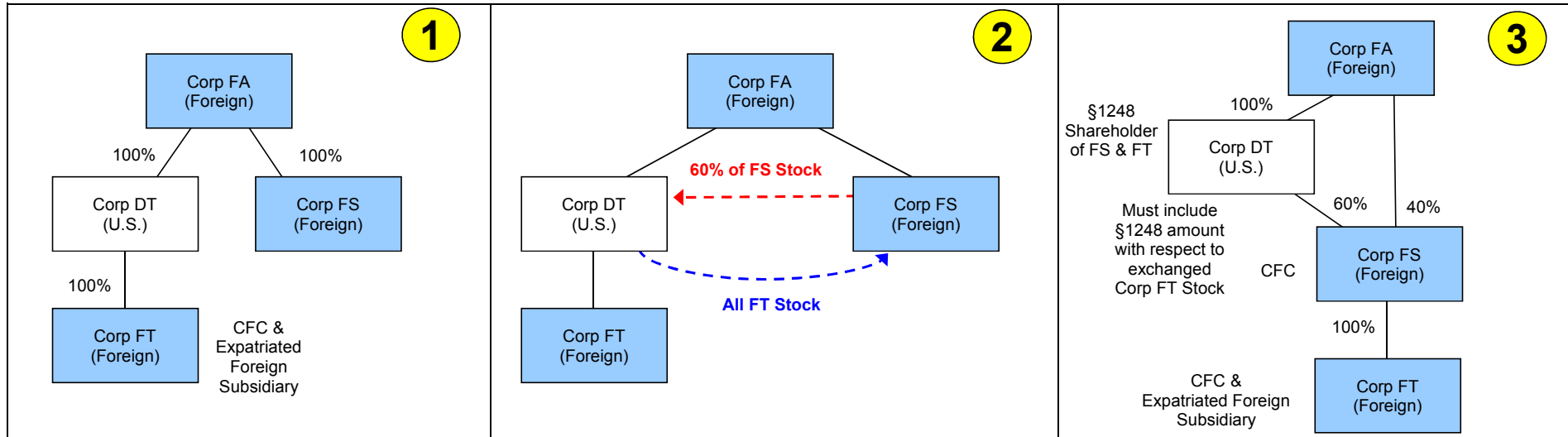


**§1248 Inclusion Required on B Reorg
 Even Though No Loss of Control**

Initial Structure

B Reorganization

Ending Point



FA, a foreign corporation, wholly owns DT, a domestic corporation, which, in turn, wholly owns FT, a foreign corporation that is a CFC. FA wholly owns FS, a foreign corporation. FA acquired DT in an inversion transaction that was completed on January 1, 2015. Accordingly, DT is a domestic entity, FT is an expatriated foreign subsidiary, and FS is a specified related person with respect to FT. On February 1, 2015, DT exchanges all of the stock of FT solely in exchange for 60% of the stock of FS pursuant to a reorganization described in Code §368(a)(1)(B). Immediately before the exchange, FT is a CFC in which DT is a section 1248 shareholder. Immediately after the exchange, FS and FT are CFCs in which DT is a section 1248 shareholder.

DT's exchange of the FT stock is a specified exchange described in section 3.02(e)(ii) of Notice 2014-52, because DT exchanged stock of an expatriated foreign subsidiary (FT) for stock in a foreign corporation (FS) pursuant to a transaction described in Treas. Reg. §1.367(b)-4(a) (which includes a reorganization described in Code §368(a)(1)(B)). Although the specified exchange is also a specified transaction because there is a transfer of FT stock to a specified related person (FS), the exchange is not recharacterized under section 3.02(e)(i)(A) of Notice 2014-52 pursuant to the gain recognition exception in section 3.02(e)(i)(C) of Notice 2014-52.

Under Treas. Reg. §1.367(b)-4(b)(1)(i), as modified by the regulations described in section 3.02(e)(ii) of Notice 2014-52, DT must include in income the section 1248 amount with respect to the FT stock exchanged, without regard to the fact that immediately after the exchange, (i) the FS stock received by DT in the exchange is stock in a corporation that is a CFC as to which DT is a section 1248 shareholder, and (ii) FT is a CFC as to which DT is a section 1248 shareholder.