

§ 1.7874-5T

26 CFR Ch. I (4-1-14 Edition)

(ii) A transfer is limited to an issuance of stock of the foreign acquiring corporation.

(iii) The determination of whether stock of the foreign acquiring corporation is described in paragraph (c)(1) of this section is made without regard to paragraphs (c)(1)(ii), (c)(2), and (e) of this section.

(iv) Paragraphs (d) and (h) of this section do not apply.

(3) *Election.* A taxpayer may elect to apply paragraphs (a) through (j) of this section to acquisitions completed on or after September 17, 2009, but before January 16, 2014, if the taxpayer applies those paragraphs consistently to all acquisitions completed before such date. The election is made by applying paragraphs (a) through (j) of this section to all such acquisitions on a timely filed original return (including extensions) or an amended return filed no later than six months after January 16, 2014. A separate statement or form evidencing the election need not be filed.

(l) *Expiration date.* The applicability of this section expires on January 13, 2017.

[T.D. 9654, 79 FR 3100, Jan. 17, 2014]

§ 1.7874-5T Effect of certain transfers of stock related to the acquisition (temporary).

(a) *General rule.* Stock of a foreign corporation that is described in section 7874(a)(2)(B)(ii) shall not cease to be so described as a result of any subsequent transfer of the stock by the former shareholder (within the meaning of § 1.7874-2(b)(2)) or former partner (within the meaning of § 1.7874-2(b)(3)) that received such stock, even if the subsequent transfer is related to the acquisition described in section 7874(a)(2)(B)(i).

(b) *Example.* The rule of this section is illustrated by the following example:

Example. (i) *Facts.* Individual A wholly owns DT, a domestic corporation. FA, a newly formed foreign corporation, acquires all of the stock of DT from Individual A in exchange solely for 100 shares of FA stock. Pursuant to a binding commitment that was entered into in connection with FA's acquisition of the DT stock, Individual A sells 25 shares of FA stock to B, an unrelated person, in exchange for cash. For federal income tax purposes, the form of the steps of the transaction is respected.

(ii) *Analysis.* Under § 1.7874-2(f)(1), the 100 shares of FA stock received by Individual A are stock of a foreign corporation (FA) that is held by reason of holding stock in a domestic corporation (DT). Accordingly, such stock is described in section 7874(a)(2)(B)(ii). Under paragraph (a) of this section, all 100 shares of FA stock retain their status as being described in section 7874(a)(2)(B)(ii), even though Individual A sells 25 of the 100 shares in connection with the acquisition described in section 7874(a)(2)(B)(i) pursuant to the binding commitment. Therefore, all 100 of the shares of FA stock are included in both the numerator and denominator of the ownership fraction (as defined in § 1.7874-4T(i)(9)).

(c) *Effective/applicability dates.* This section applies to acquisitions that are completed on or after January 16, 2014.

(d) *Expiration date.* The applicability of this section expires on January 13, 2017.

[T.D. 9654, 79 FR 3104, Jan. 17, 2014]

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SOURCE: Sections 1.9000-1 through 1.9000-8 contained in T.D. 6500, 25 FR 12155, Nov. 26, 1960, unless otherwise noted.

§ 1.9000-1 Statutory provisions.

The Act of June 15, 1955 (Pub. L. 74, 84th Cong., 69 Stat. 134), provides as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. *Repeal of sections 452 and 462—(a) Prepaid income.* Section 452 of the Internal Revenue Code of 1954 is hereby repealed.

(b) Reserves for estimated expenses, etc. Section 462 of the Internal Revenue Code of 1954 is hereby repealed.

SEC. 2. *Technical amendments.* The following provisions of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) Subsection (c) of section 381 is amended by striking out paragraph (7) (relating to carryover of prepaid income in certain corporate acquisitions).

(2) The table of sections for subpart B of part II of subchapter E of chapter 1 (relating to taxable year for which items of gross income included) is amended by striking out "Sec. 452. Prepaid income."

(3) The table of sections for subpart C of such part II (relating to taxable year for which deductions are taken) is amended by striking out:

"Sec. 462. Reserves for estimated expenses, etc."