§ 1.1563–4

Franchised corporations.

(a) In general. For purposes of paragraph (b)(2)(i)(d) of §1.1563–1, a member of a controlled group of corporations shall be considered to be a franchised corporation for a taxable year if each of the following conditions is satisfied for one-half (or more) of the number of days preceding the December 31 included within such taxable year (or, if such taxable year does not include a December 31, for one-half or more of the number of days in such taxable year preceding the last day of such year):

(1) Such member is franchised to sell the products of another member, or the common owner, of such controlled group.

(2) More than 50 percent (determined on the basis of cost) of all the goods held by such member primarily for sale to its customers are acquired from members or the common owner of the controlled group, or both.

(3) The stock of such member is to be sold to an employee (or employees) of such member pursuant to a bona fide plan designed to eliminate the stock ownership of the parent corporation (as defined in paragraph (b)(1) of §1.1563–2) or of the common owner (as defined in paragraph (b)(3) of §1.1563–2) in such member.

(4) Such employee owns (or such employees in the aggregate own) directly more than 20 percent of the total value of shares of all classes of stock of such member. For purposes of this subparagraph, the determination of whether an employee (or employees) owns the requisite percentage of the total value of the stock of the member shall be made without regard to paragraph (b) of §1.1563–2, relating to certain stock of the products of another member, or the common owner, of such controlled group.

(b) Plan for elimination of stock ownership. (1) A plan referred to in paragraph (a)(3) of this section must:

(i) Provide a reasonable selling price for the stock of the member, and

(ii) Require that a portion of the employee’s compensation or dividends, or both, from such member be applied to the purchase of notes, bonds, debentures, or similar evidences of indebtedness of...
such member held by the parent corporation or the common owner).

It is not necessary, in order to satisfy the requirements of subdivision (ii) of this subparagraph, that the plan require that a percentage of every dollar of the compensation and dividends be applied to the purchase of the stock (or the indebtedness). The requirements of such subdivision are satisfied if an otherwise qualified plan provides that under certain specified conditions (such as a requirement that the member earn a specified profit) no portion of the compensation and/or dividends need be applied to the purchase of the stock (or indebtedness), provided such conditions are reasonable.

(2) A plan for the elimination of the stock ownership of the parent corporation or of the common owner will satisfy the requirements of paragraph (a)(3) of this section and subparagraph (1) of this paragraph even though it does not require that the stock of the member be sold to an employee (or employees) if it provides for the redemption of the stock of the member held by the parent or common owner and under the plan the amount of such stock to be redeemed during any period is calculated by reference to the profits of such member during such period.

[T.D. 6845, 30 FR 9757, Aug. 5, 1965]

PROCEDURE AND ADMINISTRATION

INFORMATION AND RETURNS

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§ 1.5000A–2 Minimum essential coverage.

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§ 1.5000A–3 Exempt individuals.

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