the deemed asset sale in connection with T’s own activities, and the T1 stock is after the deemed asset sale owned by P, a member of the same affiliated group of which T is a member. Applying the anti-abuse rule of this paragraph (c), the Commissioner may, for purposes of application of the residual method under section 338 both to T and to T1, consider P to have bought only the stock of T, with T at the time of the qualified stock purchases of both T and T1 (the qualified stock purchase of T1 being triggered by the deemed sale under section 338 of T’s assets) owning T1. The Commissioner accordingly would allocate consideration to T’s assets as though the T1 stock were one of those assets, and then allocate consideration within T1 based on the amount allocated to the T1 stock at the T level.

(d) Next day rule for post-closing transactions. If a target corporation for which an election under section 338 is made engages in a transaction outside the ordinary course of business on the acquisition date after the event resulting in the qualified stock purchase of the target or a higher tier corporation, the target and all persons related thereto (either before or after the qualified stock purchase) under section 267(b) or section 707 must treat the transaction for all Federal income tax purposes as occurring at the beginning of the day following the transaction and after the deemed purchase by new target.

(e) Effective/applicability date. Paragraphs (a)(1) and (c)(1) of this section are applicable to any qualified stock disposition for which the disposition date (as defined in §1.336–1(b)(8)) is on or after May 15, 2013.

§1.338–2 Nomenclature and definitions; mechanics of the section 338 election.
(a) Scope. This section prescribes rules relating to elections under section 338. 
(b) Nomenclature. For purposes of the regulations under section 338 (except as otherwise provided):
(1) T is a domestic target corporation that has only one class of stock outstanding. Old T refers to T for periods ending on or before the close of T’s acquisition date; new T refers to T for subsequent periods.
(2) P is the purchasing corporation.
(3) The P group is an affiliated group of which P is a member.
(4) P1, P2, etc., are domestic corporations that are members of the P group.
(5) T1, T2, etc., are domestic corporations that are target affiliates of T. These corporations (T1, T2, etc.) have only one class of stock outstanding and may also be targets.
(6) S is a domestic corporation (unrelated to P and B) that owns T prior to the purchase of T by P. (S is referred to in cases in which it is appropriate to consider the effects of having all of the outstanding stock of T owned by a domestic corporation.)
(7) A, a U.S. citizen or resident, is an individual (unrelated to P and B) who owns T prior to the purchase of T by P. (A is referred to in cases in which it is appropriate to consider the effects of having all of the outstanding stock of T owned by an individual who is a U.S. citizen or resident. Ownership of T by A and ownership of T by S are mutually exclusive circumstances.)
(8) B, a U.S. citizen or resident, is an individual (unrelated to T, S, and A) who owns the stock of P.
(9) F, used as a prefix with the other terms in this paragraph (b), connotes foreign, rather than domestic, status. For example, FT is a foreign corporation (as defined in section 7701(a)(5)) and FA is an individual other than a U.S. citizen or resident.
(10) CFC, used as a prefix with the other terms in this paragraph (b) referring to a corporation, connotes a controlled foreign corporation (as defined in section 957, taking into account section 953(c)). A corporation identified with the prefix F may be a controlled foreign corporation. (The prefix CFC is used when the corporation’s status as a controlled foreign corporation is significant.)
(c) Definitions. For purposes of the regulations under section 338 (except as otherwise provided):
(1) Acquisition date. The term acquisition date has the same meaning as in section 338(b)(2).
(2) Acquisition date assets. Acquisition date assets are the assets of the target
held at the beginning of the day after
the acquisition date (but see § 1.338–1(d)
(regarding certain transactions on the
acquisition date)).

(3) Affiliated group. The term affiliated
group has the same meaning as in sec-
tion 338(h)(5). Corporations are affili-
ated on any day they are members of
the same affiliated group.

(4) Common parent. The term common
parent has the same meaning as in sec-
tion 1504.

(5) Consistency period. The consistency
period is the period described in section
338(h)(4)(A) unless extended pursuant
to § 1.338–8(j)(1).

(6) Deemed asset sale. The deemed asset
sale is the transaction described in
§ 1.338–1(a)(1) that is deemed to occur
for purposes of subtitle A of the Inter-
nal Revenue Code if a section 338 elec-
tion is made.

(7) Deemed sale tax consequences.
Deemed sale tax consequences refers to,
in the aggregate, the Federal income
tax consequences (generally, the in-
come, gain, deduction, and loss) of the
deemed asset sale. Deemed sale tax
consequences also refers to the Federal
income tax consequences of the trans-
fer of a particular asset in the deemed
asset sale.

(8) Deemed sale return. The deemed sale
return is the return on which target’s
deemed sale tax consequences are re-
ported that does not include any other
items of target. Target files a deemed
sale return when a section 338 election
is filed for target and target is a member
of a selling group (defined in paragraph
(c)(16) of this section) that files a con-
solidated return for the period that in-
cludes the acquisition date. See § 1.338–
10. If target is an S corporation for the
period that ends on the day before the
acquisition date and a section 338 elec-
tion (but not a section 338(h)(10) elec-
tion) is filed for target, see § 1.338–
10(a)(9).

(9) Domestic corporation. A domestic
corporation is a corporation—
(i) That is domestic within the mean-
ing of section 7701(a)(4) or that is treat-
ed as domestic for purposes of subtitle
A of the Internal Revenue Code (e.g.,
to which an election under section 953(d)
or 1504(d) applies); and

(ii) That is not a DISC, a corporation
described in section 1248(e), or a cor-
poration to which an election under
section 936 applies.

(10) Old target’s final return. Old tar-
get’s final return is the income tax re-
turn of old target for the taxable year
ending at the close of the acquisition
date that includes the deemed sale tax
consequences. However, if a deemed
sale return is filed for old target, the
deemed sale return is considered old
target’s final return.

(11) Purchasing corporation. The term
purchasing corporation has the same
meaning as in section 338(d)(1). The
purchasing corporation may also be re-
ferred to as purchaser. Unless other-
wise provided, any reference to the pur-
casing corporation is a reference to all
members of the affiliated group of
which the purchasing corporation is a
member. See sections 338(h)(5) and (8).
Also, unless otherwise provided, any
reference to the purchasing corpora-
tion is, with respect to a deemed pur-
chase of stock under section 338(a)(2), a
reference to new target with respect to
its own deemed purchase of stock in
another target.

(12) Qualified stock purchase. The term
qualified stock purchase has the same
meaning as in section 338(d)(3).

(13) Related persons. Two persons are
related if stock in a corporation owned
by one of the persons would be attrib-
uted under section 318(a) (other than
section 318(a)(4)) to the other.

(14) Section 338 election. A section 338
election is an election to apply section
338(a) to target. A section 338 election
is made by filing a statement of section
338 election pursuant to paragraph (d)
of this section. The form on which this
statement is filed is referred to in the
regulations under section 338 as the
Form 8023, “Elections Under Section
338 For Corporations Making Qualified
Stock Purchases.”

(15) Section 338(h)(10) election. A sec-
tion 338(h)(10) election is an election to
apply section 338(h)(10) to target. A
section 338(h)(10) election is made by
making a joint election for target
under § 1.338(h)(10)–1 on Form 8023.

(16) Selling group. The selling group is
the affiliated group (as defined in sec-
tion 1504) eligible to file a consolidated
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return that includes target for the taxable period in which the acquisition date occurs. However, a selling group is not an affiliated group of which target is the common parent on the acquisition date.

(17) Target; old target; new target. Target is the target corporation as defined in section 338(d)(2). Old target refers to target for periods ending on or before the close of target’s acquisition date. New target refers to target for subsequent periods.

(18) Target affiliate. The term target affiliate has the same meaning as in section 338(h)(6) (applied without section 338(h)(6)(B)(i)). Thus, a corporation described in section 338(h)(6)(B)(1) is considered a target affiliate for all purposes of section 338. If a target affiliate is acquired in a qualified stock purchase, it is also a target.

(19) 12-month acquisition period. The 12-month acquisition period is the period described in section 338(h)(1), unless extended pursuant to §1.338–8(j)(2).

(d) Time and manner of making election. The purchasing corporation makes a section 338 election for target by filing a statement of section 338 election on Form 8023 in accordance with the instructions to the form. The section 338 election must be made not later than the 15th day of the 9th month beginning after the month in which the acquisition date occurs. A section 338 election is irrevocable. See §1.338(h)(10)–1(c)(2) for section 338(h)(10) elections.

(e) Special rules for foreign corporations or DISCs—(1) Elections by certain foreign purchasing corporations—(i) General rule. A qualifying foreign purchasing corporation is not required to file a statement of section 338 election for a qualifying foreign target before the earlier of 3 years after the acquisition date and the 180th day after the close of the purchasing corporation’s taxable year within which a triggering event occurs.

(ii) Qualifying foreign purchasing corporation. A purchasing corporation is a qualifying foreign purchasing corporation only if, during the acquisition period of a qualifying foreign target, all the corporations in the purchasing corporation’s affiliated group are foreign corporations that are not subject to United States tax.

(iii) Qualifying foreign target. A target is a qualifying foreign target only if target and its target affiliates are foreign corporations that, during target’s acquisition period, are not subject to United States tax (and will not become subject to United States tax during such period because of a section 338 election). A target affiliate is taken into account for purposes of the preceding sentence only if, during target’s 12-month acquisition period, it is or becomes a member of the affiliated group that includes the purchasing corporation.

(iv) Triggering event. A triggering event occurs in the taxable year of the qualifying foreign purchasing corporation in which either that corporation or any corporation in its affiliated group becomes subject to United States tax.

(v) Subject to United States tax. For purposes of this paragraph (e)(1), a foreign corporation is considered subject to United States tax—

(A) For the taxable year for which that corporation is required under §1.6012–2(g) (other than §1.6012–2(g)(2)(1)(B)(2)) to file a United States income tax return; or

(B) For the period during which that corporation is a controlled foreign corporation, a passive foreign investment company, or a foreign corporation the stock ownership of which is described in section 552(a)(2).

(2) Acquisition period. For purposes of this paragraph (e), the term acquisition period means the period beginning on the first day of the 12-month acquisition period and ending on the acquisition date.

(3) Statement of section 338 election may be filed by United States shareholders in certain cases. The United States shareholders (as defined in section 951(b)) of a foreign purchasing corporation that is a controlled foreign corporation (as defined in section 957 (taking into account section 953(c))) may file a statement of section 338 election on behalf of the purchasing corporation if the purchasing corporation is not required under §1.6012–2(g) (other than §1.6012–2(g)(2)(1)(B)(2)) to file a United States income tax return for its taxable year that includes the acquisition date.
Form 8023 must be filed as described in the form and its instructions and also must be attached to the Form 5471, “Information Returns of U.S. Persons With Respect to Certain Foreign Corporations,” filed with respect to the purchasing corporation by each United States shareholder for the purchasing corporation’s taxable year that includes the acquisition date (or, if paragraph (e)(1)(i) of this section applies to the election, for the purchasing corporation’s taxable year within which it becomes a controlled foreign corporation). The provisions of §1.964–1(c) (including §1.964–1(c)(7)) do not apply to an election made by the United States shareholders.

(4) Notice requirement for U.S. persons holding stock in foreign target—(i) General rule. If a target subject to a section 338 election was a controlled foreign corporation, a passive foreign investment company, or a foreign personal holding company at any time during the portion of its taxable year that ends on its acquisition date, the purchasing corporation must deliver written notice of the election (and a copy of Form 8023, its attachments and instructions) to—

(A) Each U.S. person (other than a member of the affiliated group of which the purchasing corporation is a member (the purchasing group member)) that, on the acquisition date of the foreign target, holds stock in the foreign target; and

(B) Each U.S. person (other than a purchasing group member) that sells stock in the foreign target to a purchasing group member during the foreign target’s 12-month acquisition period.

(ii) Limitation. The notice requirement of this paragraph (e)(4) applies only where the section 338 election for the foreign target affects income, gain, loss, deduction, or credit of the U.S. person described in paragraph (e)(4)(i) of this section under section 551, 951, 1248, or 1293 of the Internal Revenue Code of 1986 that may apply to you. See Treasury Regulations section 1.338–9(b). You may be required to attach the information attached to this notice to certain returns.

(iv) Timing of notice. The notice required by this paragraph (e)(4) must be delivered to the U.S. person on or before the later of the 120th day after the acquisition date of the particular target or the day on which Form 8023 is filed. The notice is considered delivered on the date it is mailed to the proper address (or an address similar enough to complete delivery), unless the date it is mailed cannot be reasonably determined. The date of mailing will be determined under the rules of section 7502. For example, the date of mailing is the date of U.S. postmark or the applicable date recorded or marked by a designated delivery service.

(v) Consequence of failure to comply. A statement of section 338 election is not valid if timely notice is not given to one or more U.S. persons described in paragraph (e)(4)(i) of this section under section 551, 951, 1248, or 1293.

(iii) Form of notice. The notice to U.S. persons must be identified prominently as a notice of section 338 election and must—

(A) Contain the name, address, and employer identification number (if any) of, and the country (and, if relevant, the lesser political subdivision) under the laws of which are organized the purchasing corporation and the relevant target (i.e., the target the stock of which the particular U.S. person held or sold under the circumstances described in paragraph (e)(4)(i) of this section):

(B) Identify those corporations as the purchasing corporation and the foreign target, respectively; and

(C) Contain the following declaration (or a substantially similar declaration):

THIS DOCUMENT SERVES AS NOTICE OF AN ELECTION UNDER SECTION 338 FOR THE ABOVE CITED FOREIGN TARGET THE STOCK OF WHICH YOU EITHER HELD OR SOLD UNDER THE CIRCUMSTANCES DESCRIBED IN TREASURY REGULATIONS SECTION 1.338–2(e)(4). FOR POSSIBLE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES UNDER SECTION 551, 951, 1248, OR 1293 OF THE INTERNAL REVENUE CODE OF 1986 THAT MAY APPLY TO YOU, SEE TREASURY REGULATIONS SECTION 1.338–9(b). YOU MAY BE REQUIRED TO ATTACH THE INFORMATION ATTACHED TO THIS NOTICE TO CERTAIN RETURNS.

(vi) Good faith effort to comply. The purchasing corporation will be considered to have complied with this paragraph (e)(4), even though it failed to
provide notice or provide timely notice to each person described in this paragraph (e)(4), if the Commissioner determines that the purchasing corporation made a good faith effort to identify and provide timely notice to those U.S. persons.


§ 1.338–3 Qualification for the section 338 election.

(a) Scope. This section provides rules on whether certain acquisitions of stock are qualified stock purchases and on other miscellaneous issues under section 338.

(b) Rules relating to qualified stock purchases—(1) Purchasing corporation requirement. An individual cannot make a qualified stock purchase of target. Section 338(d)(3) requires, as a condition of a qualified stock purchase, that a corporation purchase the stock of target. If an individual forms a corporation (new P) to acquire target stock, new P can make a qualified stock purchase of target if new P is considered for tax purposes to purchase the target stock. Facts that may indicate that new P does not purchase the target stock include new P’s merging downstream into target, liquidating, or otherwise disposing of the target stock following the purported qualified stock purchase.

(2) Purchase. The term purchase has the same meaning as in section 338(h)(3). Stock in a target (or target affiliate) may be considered purchased if, under general principles of tax law, the purchasing corporation is considered to own stock of the target (or target affiliate) meeting the requirements of section 1504(a)(2), notwithstanding that no amount may be paid for (or allocated to) the stock.

(3) Acquisitions of stock from related corporations—(i) In general. Stock acquired by a purchasing corporation from a related corporation (R) is generally not considered acquired by purchase. See section 338(h)(3)(A)(iii).

(ii) Time for testing relationship. For purposes of section 338(h)(3)(A)(iii), a purchasing corporation is treated as related to another person if the relationship specified in section 338(h)(3)(A)(iii) exists—

(A) In the case of a single transaction, immediately after the purchase of target stock;

(B) In the case of a series of acquisitions otherwise constituting a qualified stock purchase within the meaning of section 338(d)(3), immediately after the last acquisition in such series; and

(C) In the case of a series of transactions effected pursuant to an integrated plan to dispose of target stock, immediately after the last transaction in such series.

(iii) Cases where section 338(h)(3)(C) applies—acquisitions treated as purchases. If section 338(h)(3)(C) applies and the purchasing corporation is treated as acquiring stock by purchase from R, solely for purposes of determining when the stock is considered acquired, target stock acquired from R is considered to have been acquired by the purchasing corporation on the day on which the purchasing corporation is first considered to own that stock under section 318(a) (other than section 318(a)(4)).

(iv) Examples. The following examples illustrate this paragraph (b)(3):

Example 1. (i) S is the parent of a group of corporations that are engaged in various businesses. Prior to January 1, Year 1, S decided to discontinue its involvement in one line of business. To accomplish this, S forms a new corporation, Newco, with a nominal amount of cash. Shortly thereafter, on January 1, Year 1, S transfers all the stock of the subsidiary conducting the unwanted business (T) to Newco in exchange for 100 shares of Newco common stock and a Newco promissory note. Prior to January 1, Year 1, S and Underwriter (U) had entered into a binding agreement pursuant to which U would purchase 60 shares of Newco common stock from S and then sell those shares in an Initial Public Offering (IPO). On January 6, Year 1, the IPO closes.

(ii) Newco’s acquisition of T stock is one of a series of transactions undertaken pursuant to one integrated plan. The series of transactions ends with the closing of the IPO and the transfer of all the shares of stock in accordance with the agreements. Immediately after the last transaction effected pursuant to the plan, S owns 40 percent of Newco, which does not give rise to a relationship described in section 338(h)(3)(A)(iii). See § 1.338–3(b)(3)(ii)(C). Accordingly, S and Newco are not related for purposes of section 338(h)(3)(A)(iii).

(iii) Further, because Newco’s basis in the T stock is not determined by reference to S’s