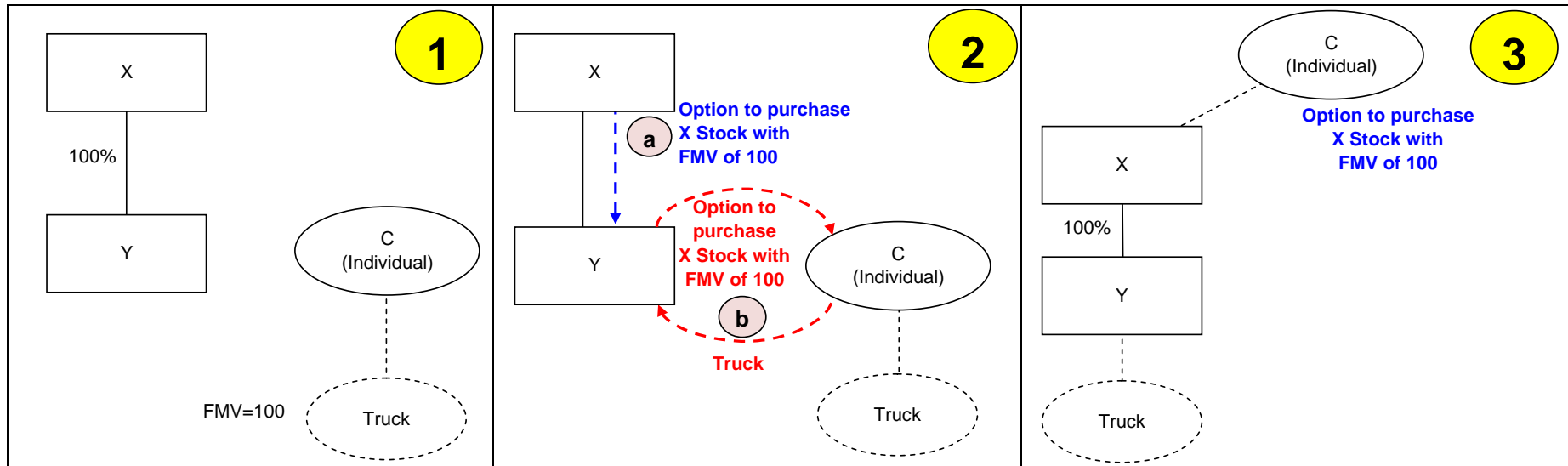


Subsidiary Exchange of Option on Parent Stock for a Truck

Initial Structure

Transfers

Ending Point



X, a corporation, owns all of the stock of Y corporation. Y reaches an agreement with C, an individual, to acquire a truck from C in exchange for an option to purchase shares of X stock with a fair market value of \$100. To effectuate Y's agreement with C, X transfers to Y the option to purchase X stock in a transaction in which, but for this regulation, the basis of the X stock in the hands of Y would be determined with respect to X's basis in the X stock under section 362(a). Y immediately transfers the option to purchase X stock to C to acquire the truck.

No gain or loss is recognized on the disposition of the X stock option by Y. Immediately before Y's disposition of the X stock option, Y is treated as purchasing the X stock option from X for \$100 of cash contributed to Y by X. Under section 358, X's basis in its Y stock is increased by \$100.

Deemed Transfers

