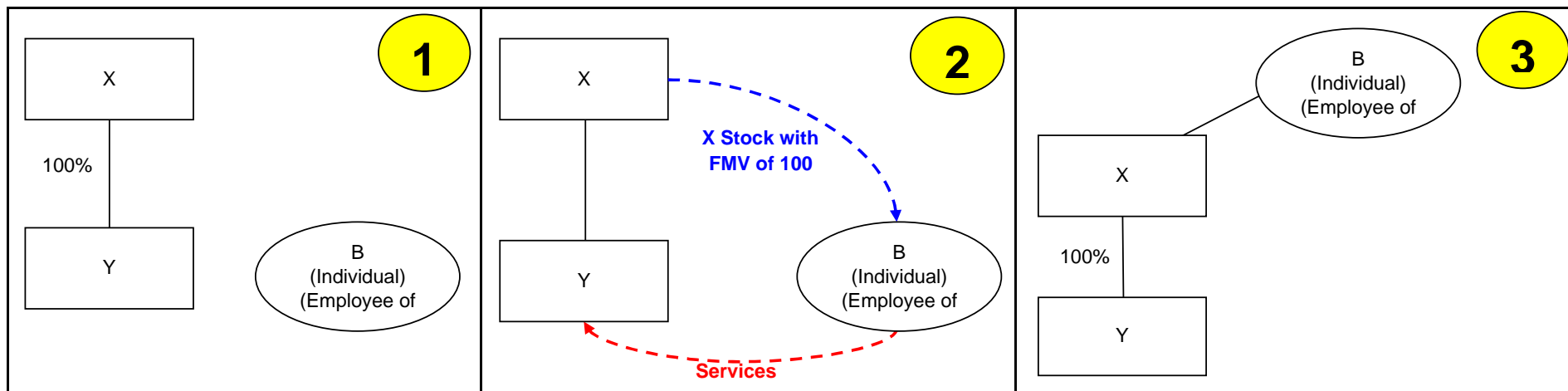


Parent Stock Used As Compensation For Subsidiary Employee

Initial Structure

Compensation

Ending Point



X, a corporation, owns all of the outstanding stock of Y corporation. B, an individual, is an employee of Y. Pursuant to an agreement between X and Y to compensate B for services provided to Y, X transfers to B 10 shares of X stock with a fair market value of \$100. Under §1.83-6(d), but for this section, the transfer of X stock by X to the would be treated as a contribution of the X stock by X to the capital of Y, and immediately thereafter, a transfer of the X stock by Y to B. 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).

No gain or loss is recognized on the deemed disposition of the X stock by Y. Immediately before Y's deemed disposition of the X stock, Y is treated as purchasing the X stock 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

