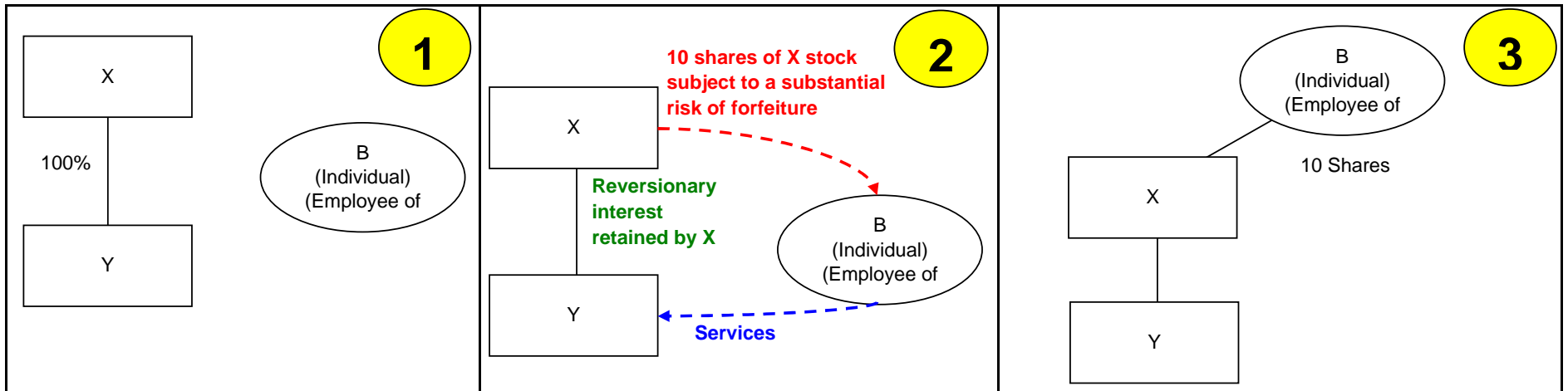


Parent Stock Subject to a Substantial Risk of Forfeiture

Initial Structure

Issuance of Shares

Ending Point (after vesting)



X, a corporation, owns stock of Y. To compensate Y's employee, B, for services provided to Y, X issues 10 shares of X stock to B, subject to a substantial risk of forfeiture. B does not make a section 83(b) election. X retains the only reversionary interest in the X stock in the event that B forfeits the right to the stock. Several years after X's transfer of the X shares, the stock vests. At the time the stock vests, the 10 shares of X stock have a fair market value of \$100. Under Reg. 1.83-6(d), but for this regulation, the transfer of the X stock by X to B would be treated, at the time the stock vests, as a contribution of the X stock by X to the capital of Y, and immediately thereafter, a disposition of the X stock by Y to B. The basis of the X stock in the hands of Y, but for this regulation 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 X stock by Y when the stock vests. Immediately before Y's deemed disposition of the X stock, Y is treated as purchasing X's 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 at Vesting

