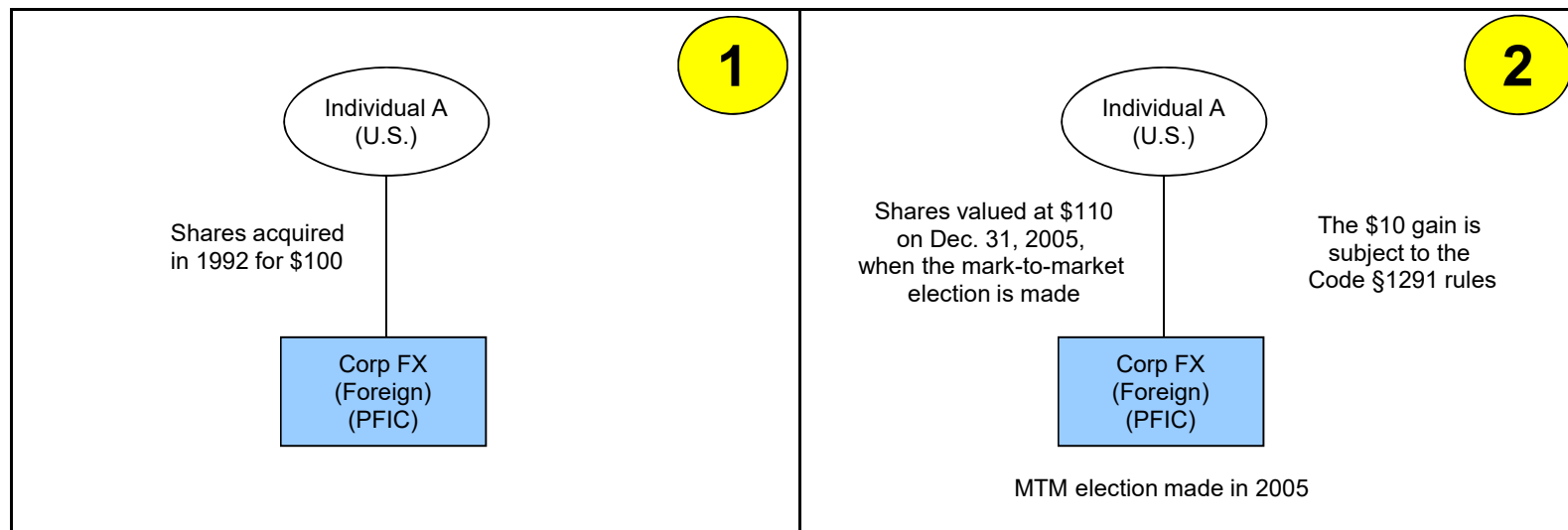


Acquisition of PFIC Shares (1992)

MTM Election (2005)



A, a United States person and a calendar year taxpayer, owns marketable stock in FX, a PFIC that it acquired on January 1, 1992. At all times, A's FX stock was a nonqualified fund subject to taxation under Code §1291. A made a timely Code §1296 election effective for taxable year 2005. At the close of taxable year 2005, the fair market value of A's FX stock exceeded its adjusted basis by \$10. Pursuant to Treas. Reg. §1.1296-1(i)(2)(ii), A must treat the \$10 gain under Code §1291 as if the FX stock were disposed of on December 31, 2005. Further, A increases its adjusted basis in the FX stock by the \$10 in accordance with Treas. Reg. §1.1296-1(i)(2)(iii).