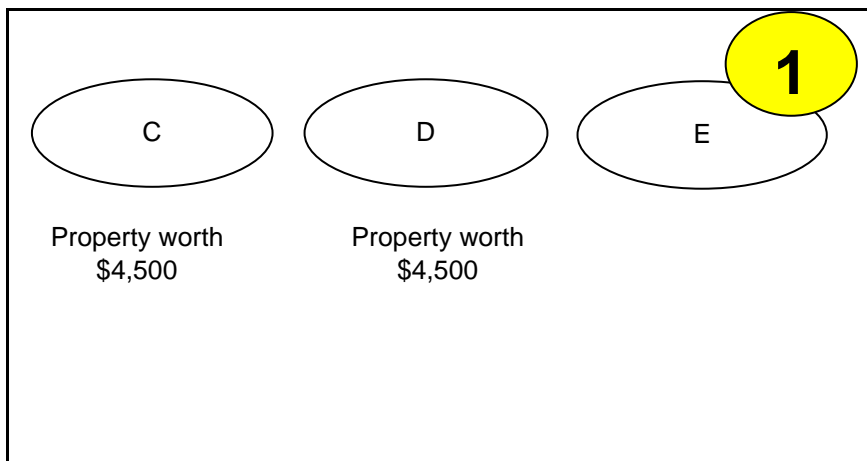


Reg. 1.351-1(b)(2), Example 2

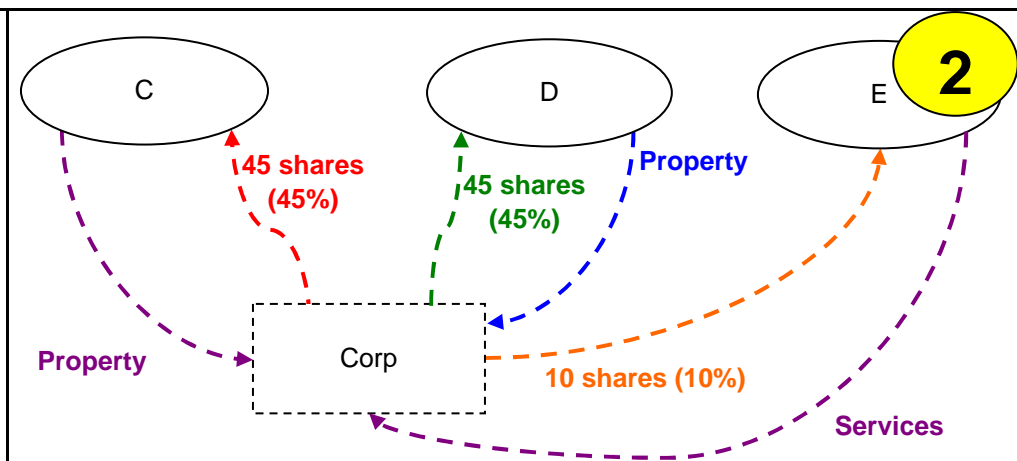
Stock in Exchange For Services

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Initial Structure



Contribution/Services



Individuals C and D each transferred, to a newly organized corporation, property having a fair market value of \$4,500 in exchange for the issuance by the corporation of 45 shares of its capital stock to each transferor. At the same time, the corporation issued to E, an individual, 10 shares of its capital stock in payment for organizational and promotional services rendered by E for the benefit of the corporation. E transferred no property to the corporation. C and D were under no obligation to pay for E's services. No gain or loss is recognized to C or D. E received compensation taxable as ordinary income to the extent of the fair market value of the 10 shares of stock received by him.

Ending Point

