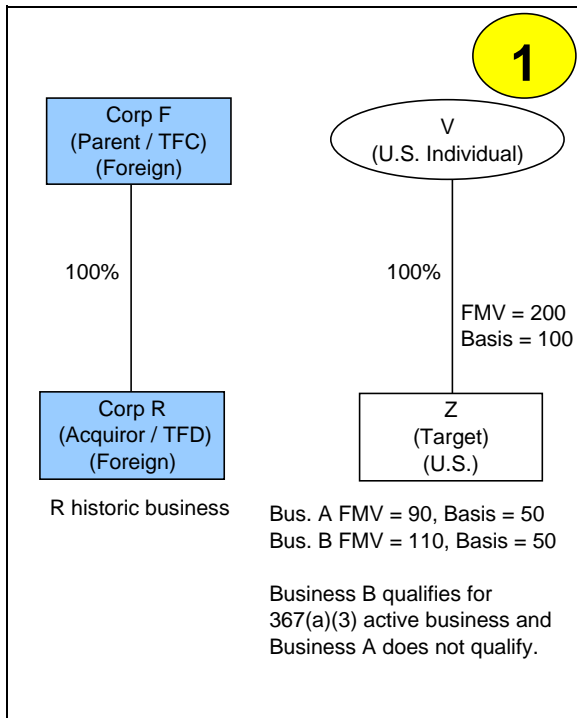


**Reg. 1.367(a)-3(d)(3), Example 8B  
368(a)(1)(C)**  
(formerly Example 7B)

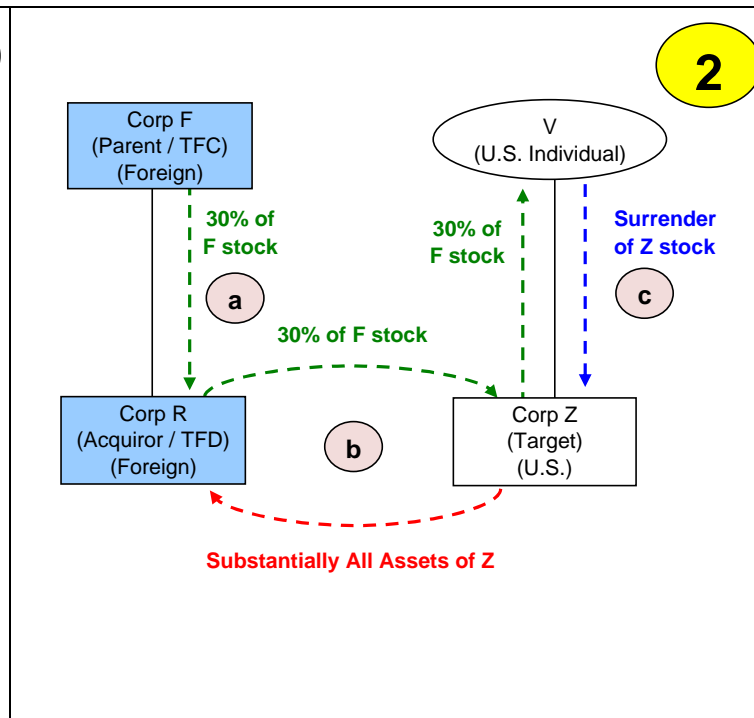
**Indirect Stock Transfer -  
Outbound Triangular C Reorg**

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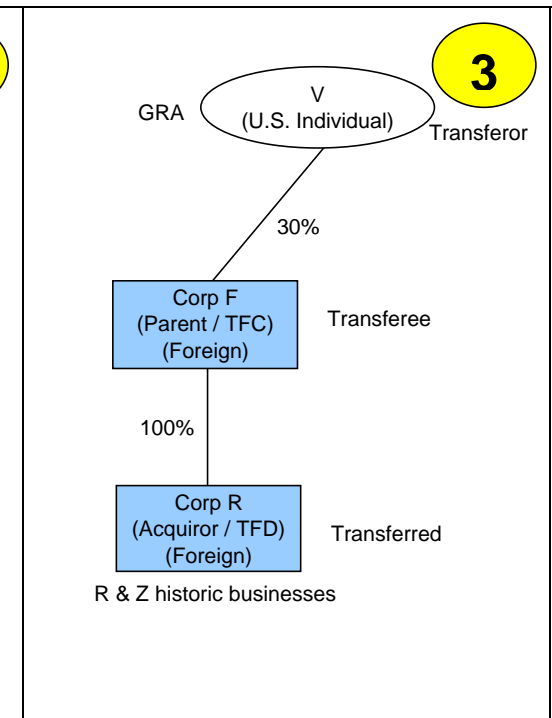
**Initial Structure**



**Outbound Triangular C Reorg**



**Ending Point**



F, a foreign corporation, owns all of the stock of R, a foreign corporation that operates an historical business. V, a U.S. Individual, owns all of the stock of Z, a domestic corporation. The properties of Z consist of Business A assets, with an adjusted basis of \$50 and fair market value of \$90, and Business B assets, with an adjusted basis of \$50 and a fair market value of \$110. Assume that the Business A assets do not qualify for the active trade or business exception under section 367(a)(3), but that the Business B assets do qualify for the exception. V's basis in the Z stock is \$100, and the value of such stock is \$200. V does not own any of the stock of F (applying the attribution rules of section 318 as modified by section 958(b)). In a triangular reorganization described in section 368(a)(1)(C), R acquires all of the assets of Z, and V receives 30% of the voting stock of F.

Section 367(a)(5) would prevent the application of the active trade or business exception under section 367(a)(3). Thus, Z's transfer of assets to R would be fully taxable under section 367(a)(1). Z would recognize \$100 of income. V's basis in its stock of Z is not increased by this amount. V is taxable with respect to its indirect transfer of its Z stock unless V enters into a gain recognition agreement in the amount of the \$100, the gain realized but not recognized with respect to its Z stock.