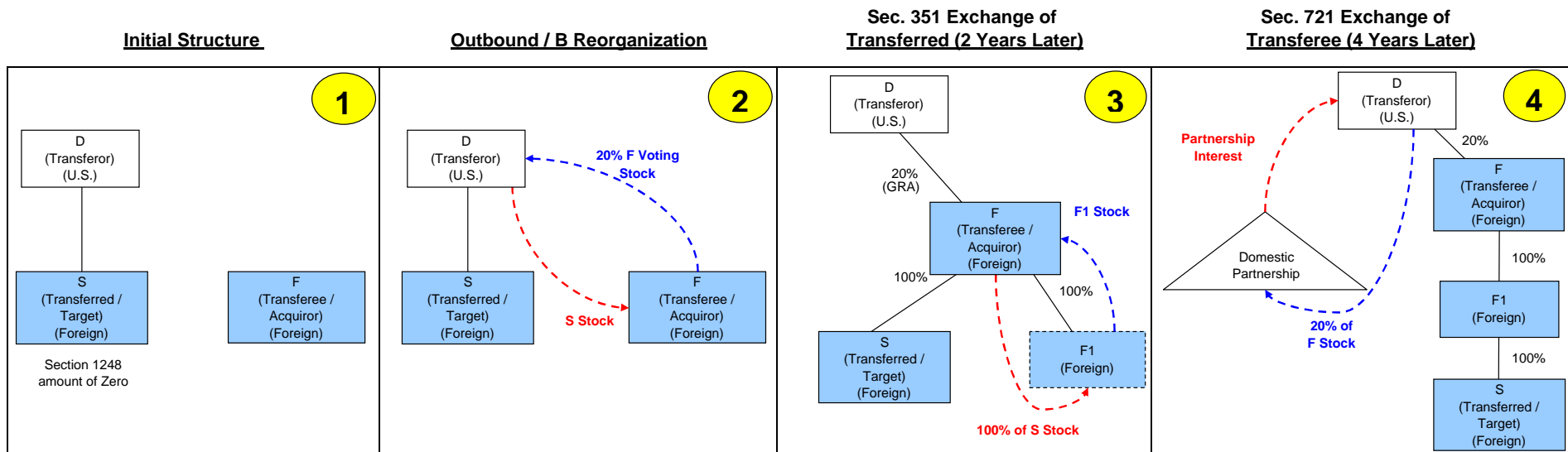


**Outbound B Reorg, Sec. 351
and 721 Exchanges- Basis Adjustments**



D, a domestic corporation owning 100 percent of the stock of S, a foreign corporation, transfers all of the S stock to F, a foreign corporation, in an exchange described in section 368(a)(1)(B). The section 1248 amount with respect to the S stock at the time of the transfer is \$0. In the exchange, D receives 20 percent of the voting stock of F. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and D enters into a gain recognition agreement to qualify for nonrecognition treatment and does not make the election to recognize the gain in the year of the triggering event. Two years after the initial transfer, F transfers all of the S stock to F1, a foreign corporation, in an exchange to which section 351 applies. Four years after the initial transfer, D transfers its entire 20 percent interest in F's voting stock to a domestic partnership in exchange for an interest in the partnership. Because D complies with the requirements of paragraph (e) for each transaction that would otherwise be a triggering event, D is not required to recognize the gain that was realized, but not recognized, on the initial transfer. Five years after the initial transfer, S disposes of substantially all of its assets, and D is required by the terms of the gain recognition agreement to recognize all the gain that it realized on the initial transfer of the stock of S.

As a result of the triggering event, the amount of gain required to be recognized as a result of S's disposition of substantially all its assets (but not the tax or interest required to be paid on such amount) is reflected by an increased basis (as of the date of the initial transfer) in D's partnership interest, the partnership's interest in the 20 percent voting stock of F, F's stock of F1, and F1's stock of S. S, however, is not permitted to increase its basis in its assets for purposes of determining the direct or indirect U.S. tax results, if any, on the sale of its assets.

Ending Point

