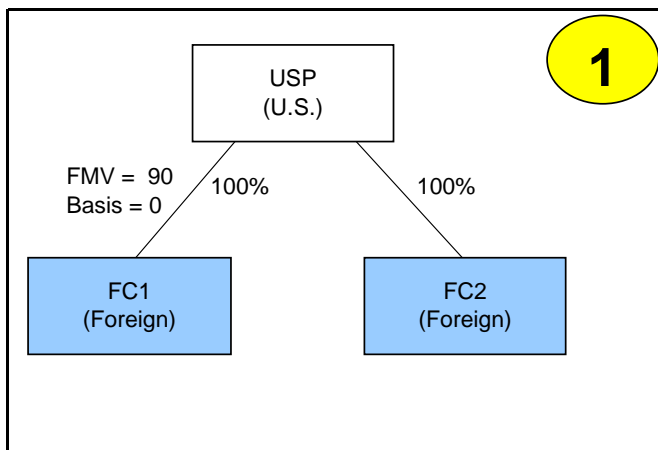


**Temp. Reg. 1.367(a)-8T(g)(3)(v),
Example 1**

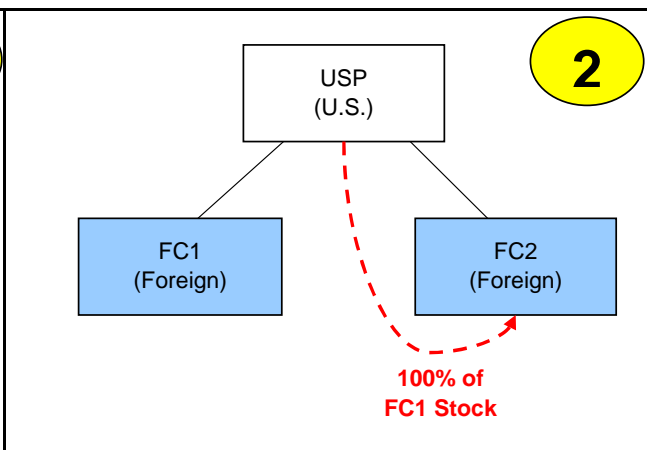
**Outbound 351 Exchange
& Inbound 332 Liquidation**

Copyright © 2007 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com

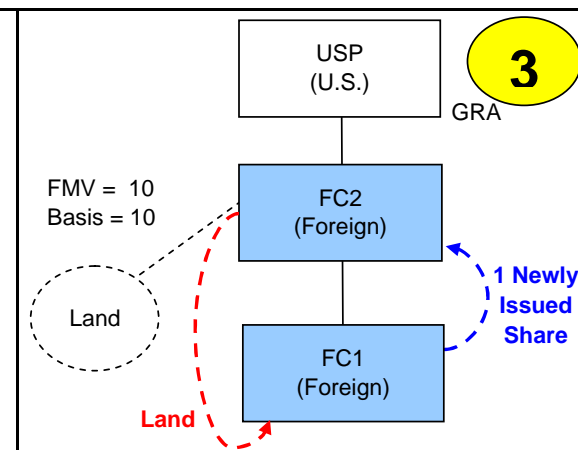
Initial Structure



Outbound 351 Exchange (Year 1)

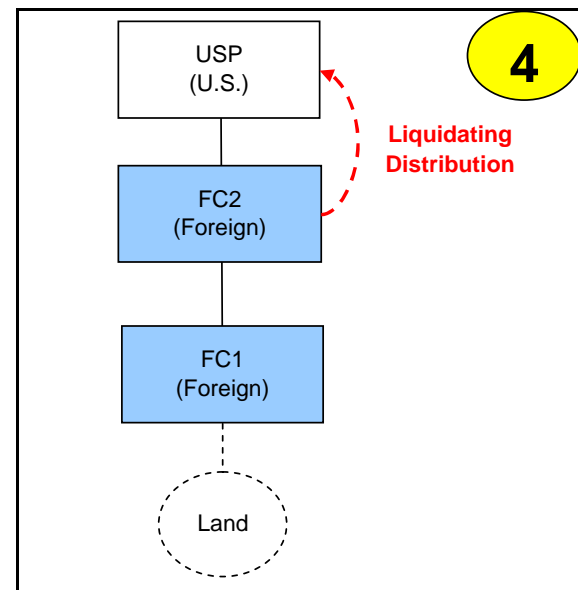


Contribution of Land (Year 2)



USP, a domestic corporation, owns 100% of the stock of two foreign corporations, FC1 and FC2. FC1 has 10 shares of stock issued and outstanding. In year 1, when the basis and fair market value of the FC1 stock is \$0 and \$90, respectively, USP transfers its 10 shares of FC1 stock to FC2 in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). USP enters into a gain recognition agreement with respect to such transfer. USP also complies with the notice requirement under §1.367(b)-1(c). In year 2, FC2 transfers land with a basis and fair market value of \$10 to FC1 in exchange for one newly issued share of FC1 stock. In year 4, FC2 distributes all of its FC1 stock to USP in a liquidating distribution that qualifies under sections 332 and 337.

Inbound 332 Liquidation (Year 4)



In determining whether the gain recognition agreement entered into by USP is terminated, or in the alternative triggered, only the stock of FC1 transferred by USP to FC2 in year 1 is considered. Thus, the basis in the one share of FC1 stock issued to FC2 in year 2 in exchange for land is not taken into account. If instead of FC1 actually issuing another share of stock to FC2 in exchange for the land, FC1 was deemed to issue stock to FC2 in such exchange, then the gain recognition agreement would terminate only if USP elects to adjust the basis in its FC1 shares such that nine of the shares have zero basis and one of the shares has \$10 of basis.