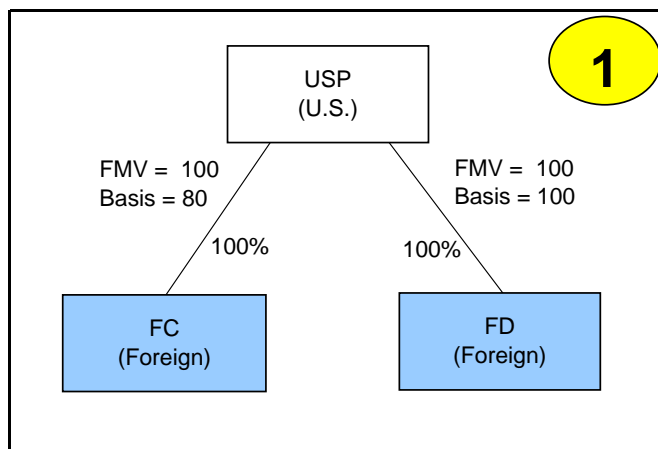


**Temp. Reg. 1.367(a)-8T(g)(3)(v),  
Example 2**

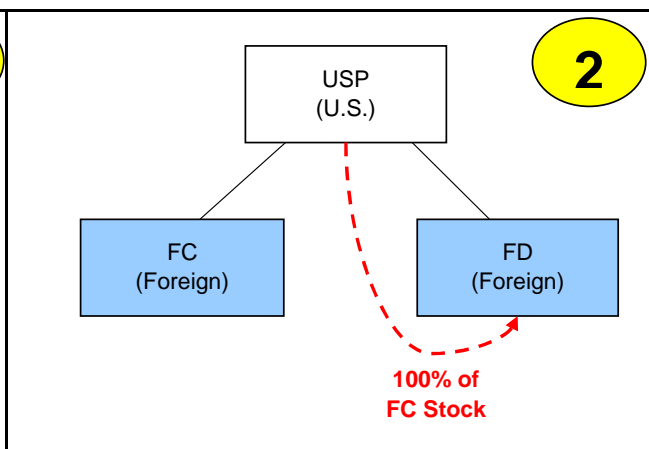
**Outbound 351 Exchange  
& Spin-Off**

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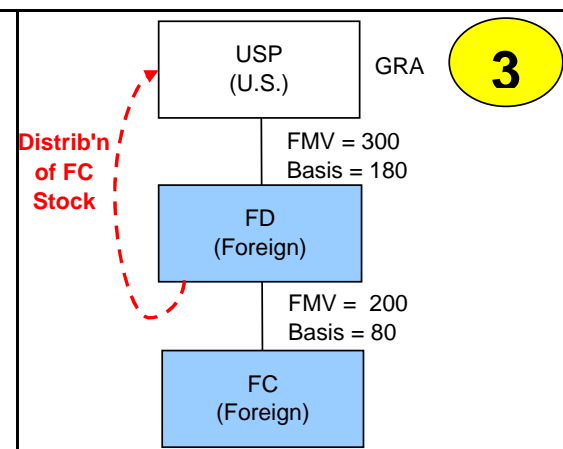
**Initial Structure**



**Outbound 351 Exchange (Year 1)**

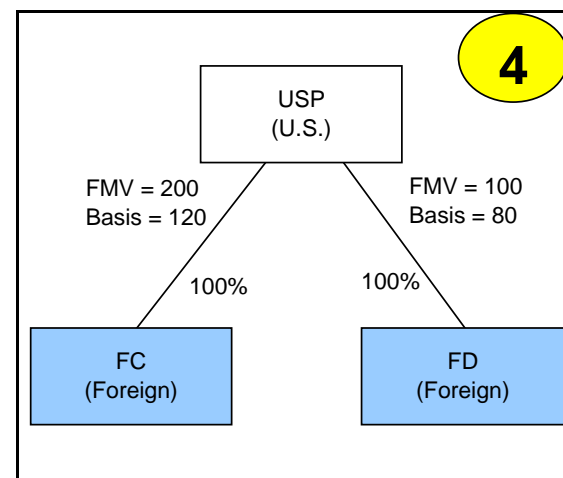


**Spin-Off (Year 4)**



USP, a domestic corporation, owns 100% of the stock of two foreign corporations, FC and FD. In year 1, USP transfers 100% of the stock of FC to FD in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). At the time of the initial transfer, USP has a basis of \$80 in its stock of FC; the stock of FC has a fair market value of \$100. USP's basis in its stock of FD, and the fair market value of the FD stock, are both \$100. USP enters into a gain recognition agreement with respect to the initial transfer. USP also complies with the notice requirement under §1.367(b)-1(c). In year 4, FD distributes all of the stock of FC to USP in a pro rata distribution to which section 355 applies. At the time of the distribution, the fair market value of the FC stock has increased to \$200, while the fair market value of the FD stock has remained \$100. Under section 358, USP allocates its \$180 predistribution basis in its FD stock between the FD stock and FC stock according to the stock blocks' relative fair market values, yielding a \$60 basis in the FD stock and a \$120 basis in the FC stock. Immediately before the distribution, USP's section 1248 amount with respect to FC and FD is zero.

**Ending Point**



The distribution of FC stock is a triggering event. The distribution does not terminate the gain recognition agreement because after the distribution, USP's basis of \$120 in the FC stock exceeds the \$80 basis that USP had in the FC stock at the time of the initial transfer. If, however, USP elects to reduce its basis in the FC stock it receives to \$80, then the gain recognition agreement will terminate without further effect. In addition, the \$40 of basis that USP elected to reduce is redistributed to the stock of FD, the result of which is that USP has a basis of \$100 in its FD stock.