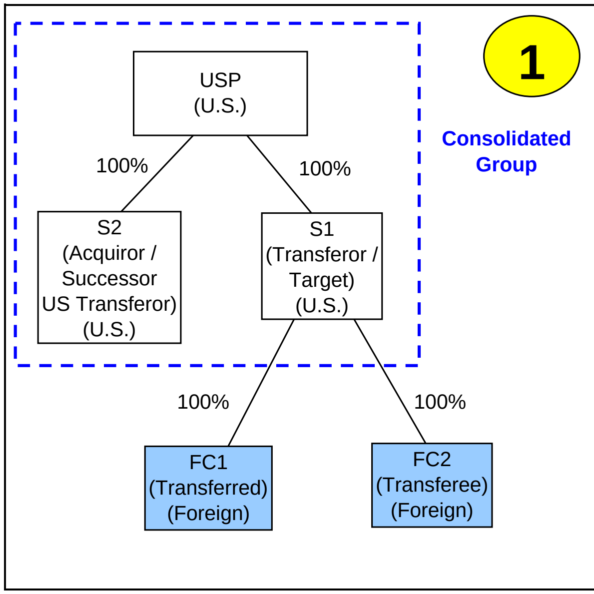
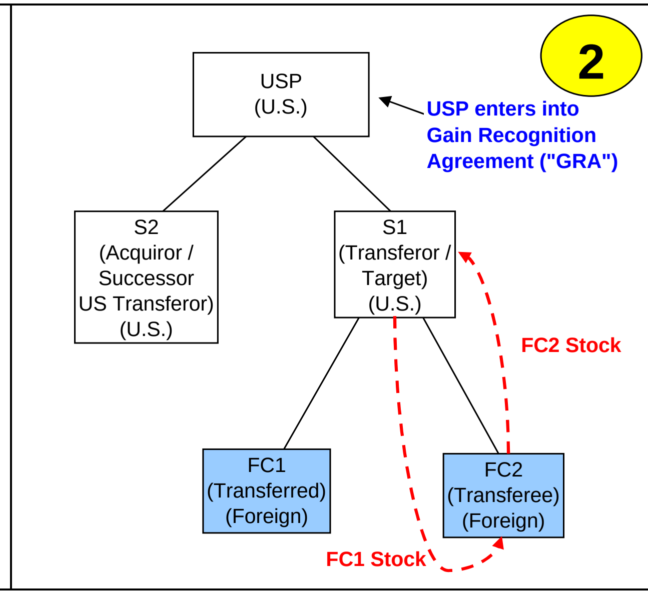
Notice 2005-74, Example 1

Tax Free Reorganization Impact on Gain Recognition Agreement - Transferor

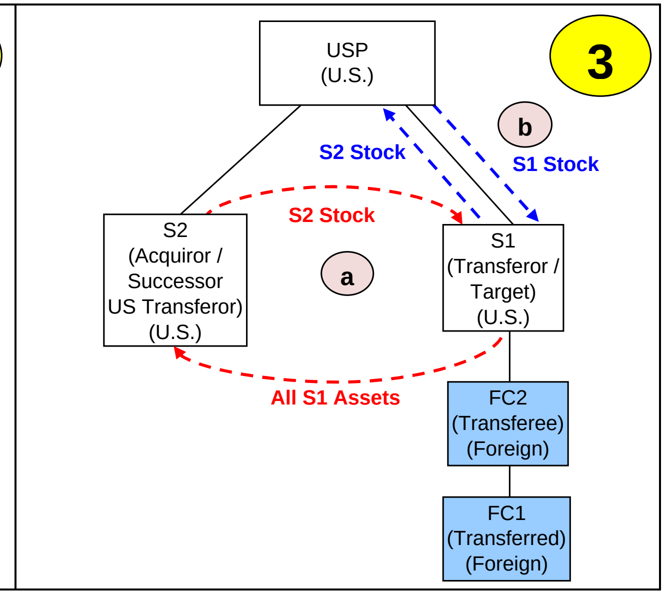
Initial Structure



Outbound 351 (Year 1)



D Reorganization (Year 4)



In Year 1 S1 transfers 100% of FC1 to FC2 in an outbound 351 exchange and USP enters into a gain recognition agreement ("GRA") pursuant to Reg. 1.367(a)-3(b)(1)(ii) and 1.367(a)-8. In Year 4 in a reorganization described in section 368(a)(1)(D), S1 transfers all of its assets, including the stock of FC2, to S2 in exchange for S2 stock. S1 transfers the S2 stock to USP in exchange for the S1 stock held by USP and the S-1 stock is canceled.

Because USP and S2 are members of the consolidated group of which S1 was a member, and USP was the common parent which entered into the original GRA in year 1, the transfer of the FC2 stock will not trigger the GRA **IF** USP enters into a new GRA, in which it agrees to recognize gain with respect to the transfer subject to the original GRA, and S2 complies with the reporting requirements. For purposes of the new GRA, S2 is the successor U.S. transferor and is treated as the original U.S. transferor, FC2 continues to be the transferee foreign corporation, and FC1 continues to be the transferred corporation. The new GRA applies through the close of Year 6 (the remaining term of the original GRA filed by USP).

Ending Point