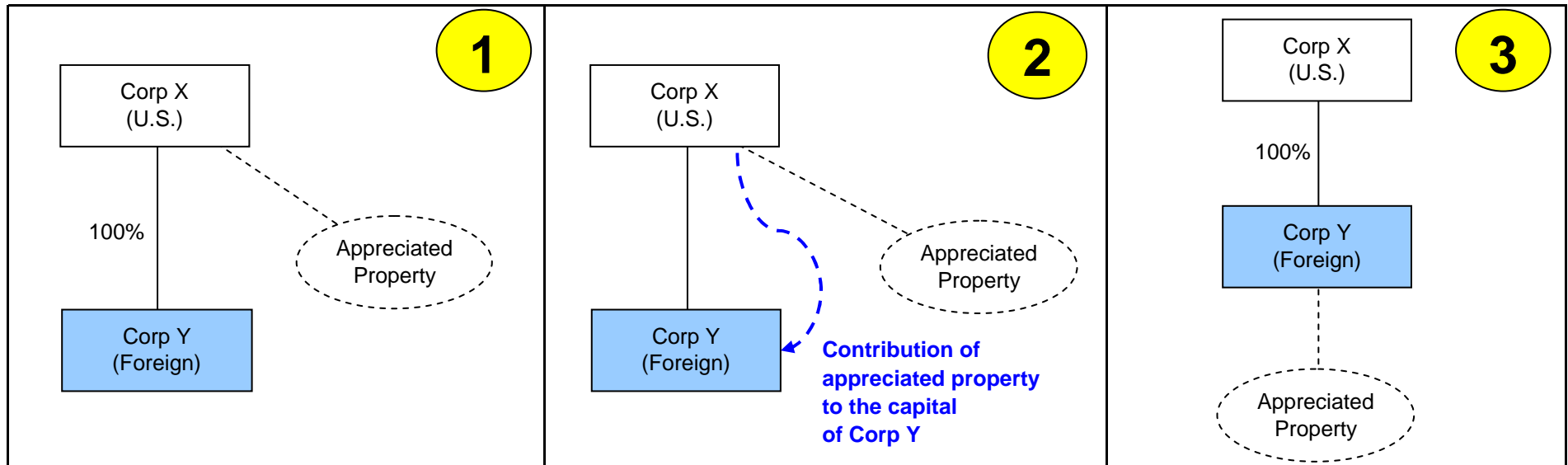


**Outbound Contribution  
to Capital**

Initial Structure

Contribution to Capital

Ending Point



X, a domestic corporation, contributed appreciated property to Y, an existing wholly-owned foreign subsidiary. Although X did not receive any additional Y shares, the ruling asserted that the transaction would be considered an exchange of property for stock described in section 351. Consequently, section 367(a) would be applicable and gain may be recognized.

This ruling was not followed by the Tax Court and the Second Circuit in *Abegg v. Commissioner*, 50 T.C. 145 (1968), affirmed 429 F.2d 1209 (2d Cir. 1970). However, in 1976 section 367(c)(2) was amended to provide that "any transfer of property to a foreign corporation as a contribution to capital . . . shall be treated as an exchange of such property for stock of the foreign corporation . . . ." Thus, for all practical purposes, the ruling is still in effect. Form 926 must be filed to comply with the disclosure requirements of section 6038B.