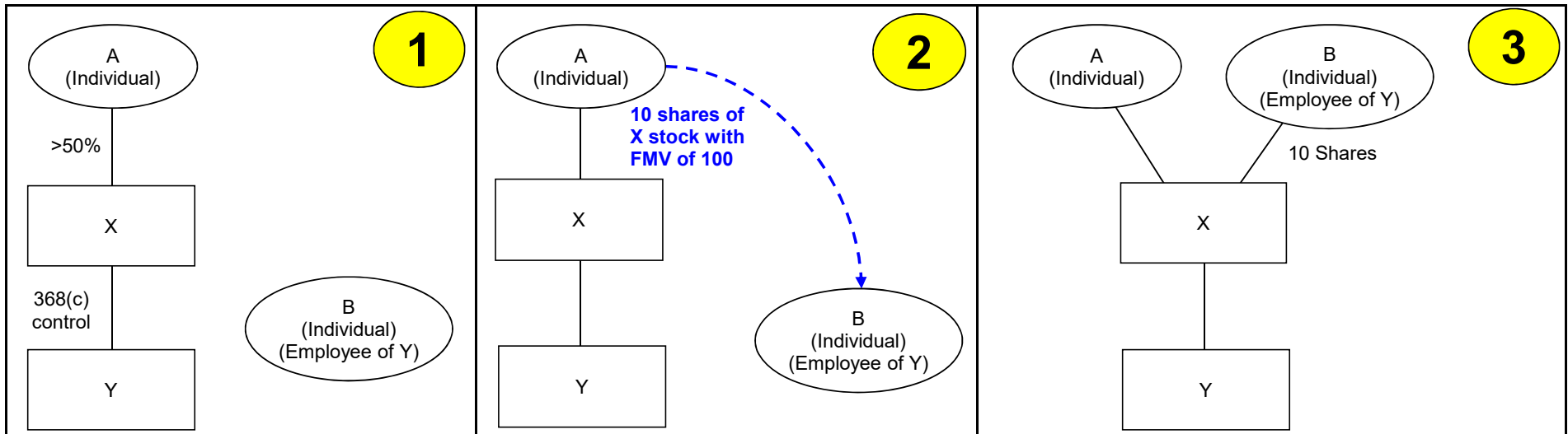


Owner's Transfer of Parent Stock to Subsidiary's Employee

Initial Structure

Transfer of Shares

Ending Point



A, an individual, owns a majority of the stock of X. X owns stock of Y constituting control of Y within the meaning of section 368(c). A transfers 10 shares of its X stock to B, a key employee of Y. The fair market value of the 10 shares on the date of transfer was \$100.

A is treated as making a nondeductible contribution of the 10 shares of X to the capital of X, and no gain or loss is recognized by A as a result of this transfer. See *Commissioner v. Fink*, 483 U.S. 89 (1987). A must allocate his basis in the transferred shares to his remaining shares of X stock. No gain or loss is recognized on the deemed disposition of the X stock by Y. Immediately before Y's disposition of the X stock, Y is treated as purchasing the X stock from X for \$100 of cash contributed to Y by X. Under section 358, X's basis in its Y stock is increased by \$100.

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Deemed Transfers

