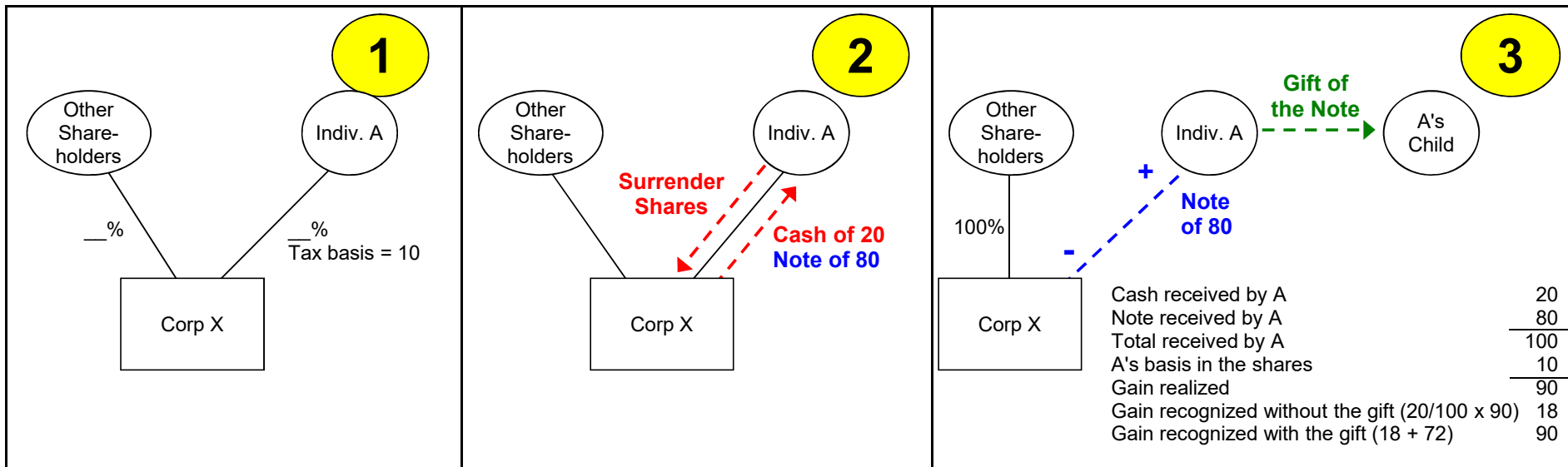


**Gift of Installment Note
Triggered Gain**

Initial Structure

Redemption

Gift of Note Receivable



Common stock owned by an individual was redeemed by a corporation for cash of 20 and a negotiable note of 80, in a redemption transaction described in section 302(b)(3) (complete termination of interest). The gain from the redemption was reported on the installment method. Before any principal payments were made, the individual gave the note (the fair market value of which was equal to its face value) to the individual's child. The transfer is a disposition under section 453(d)(1)(B) [now section 453B(a)], triggering gain to the individual. The basis of the note in the hands of the child is its face value.

Ending Point

