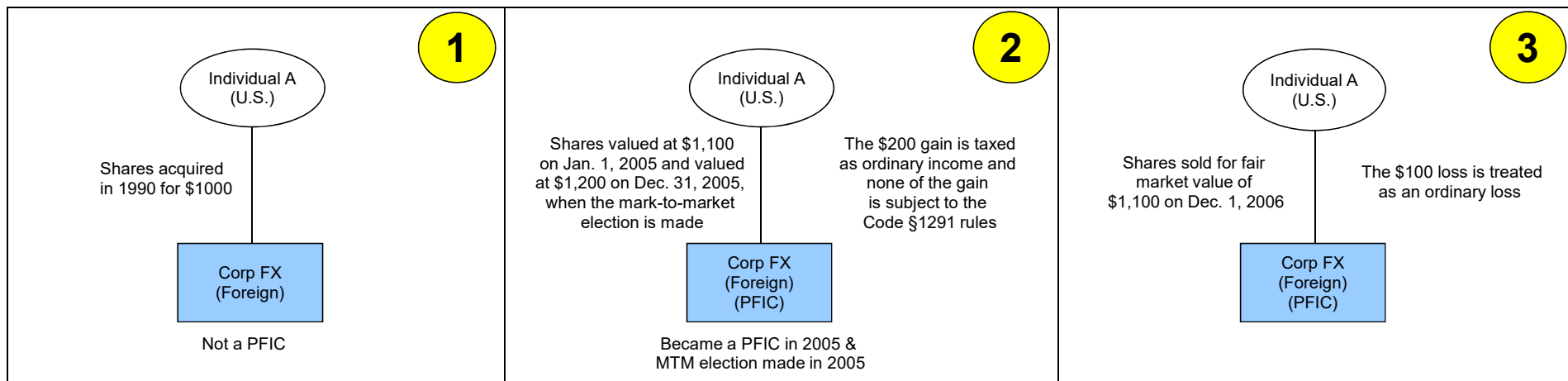


**Ordinary Loss On Sale of 1296 Stock Because Loss Did Not Exceed Unreversed Inclusions**

**Acquisition of Non-PFIC Shares (1990)**

**Became PFIC & Made MTM Election (2005)**

**Shares Sold at Loss (2006)**



A, a United States individual, purchases stock in FX, a foreign corporation that is not a PFIC, in 1990 for \$1,000. On January 1, 2005, when the fair market value of the FX stock is \$1,100, FX becomes a PFIC. A makes a timely Code §1296 election for taxable year 2005. On December 31, 2005, the fair market value of the FX stock is \$1,200. For taxable year 2005, A includes \$200 of mark to market gain (the excess of the fair market value of FX stock (\$1,200) over A's adjusted basis (\$1,000)) in gross income as ordinary income and pursuant to Treas. Reg. §1.1296-1(d)(1) increases his basis in the FX stock by that amount.

On December 1, 2006, A sells the stock in FX for \$1,100. At that time, A's unreversed inclusions (the amount A included in income as mark to market gain) with respect to the stock in FX are \$200. Accordingly, for taxable year 2006, A recognizes a loss on the sale of the FX stock of \$100, (the fair market value of the FX stock (\$1,100) minus A's adjusted basis (\$1,200) in the stock) that is treated as an ordinary loss because the loss does not exceed the unreversed inclusions attributable to the stock of FX.