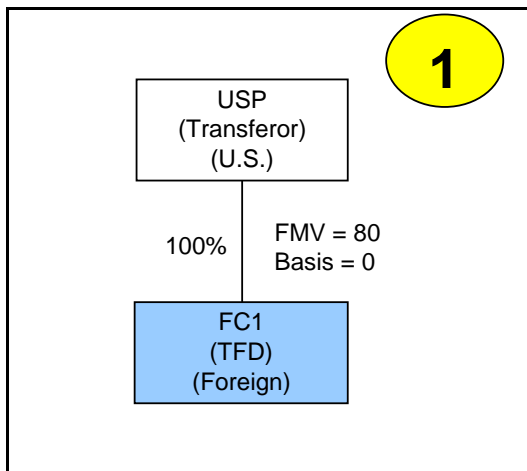


**Temp. Reg. 1.367(a)-8T(g)(1)(vi),
Example 2**

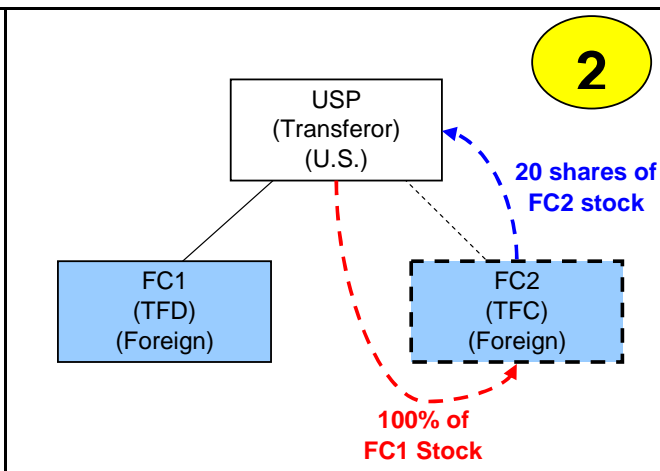
**Outbound of Stock, Outbound
of Land and Sale of Transferee**

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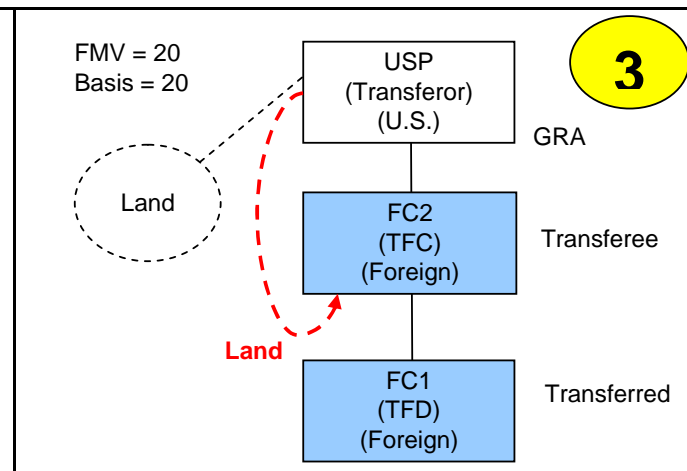
Initial Structure



Outbound 351 / B Reorg (Year 1)



Outbound 351 Exchange (Year 3)



USP, a domestic corporation, owns 100% of the stock of FC1, a foreign corporation. The basis and fair market value of the FC1 stock is \$0 and \$80, respectively. In year 1, USP transfers 100% of the stock of FC1 to FC2, a newly formed foreign corporation, in exchange for 20 shares of FC2 stock. The transfer of the stock of FC1 qualifies under section 351 and section 368(a)(1)(B). The transfer of the FC1 stock is subject to both section 367(a) and (b). USP enters into a gain recognition agreement with respect to the \$80 of gain in the FC1 stock and complies with the notice requirement under §1.367(b)-1(c). USP's basis and fair market value in the FC2 stock it receives at the time of the transfer is \$0 and \$80, respectively. In year 3, when the fair market value of the FC2 stock continues to equal \$80, USP transfers land that has a basis and fair market value of \$20 to FC2 in a transfer that qualifies under section 351, but does not receive additional shares of FC2 in connection with such transfer (it would be a "meaningless gesture" for FC2 to issue shares). In year 5, USP sells 100% of its FC2 stock to an unrelated person for cash.

The disposition of the FC2 stock is a triggering event. The disposition would not terminate the gain recognition agreement if the basis in each of the 20 FC2 shares that USP sells equals \$1 (\$20/20 shares) because immediately before the disposition the basis in the FC2 shares received for the FC1 shares exceeds the basis of the FC1 shares at the time of the initial transfer. As a result, the condition described in paragraph (g)(1)(i)(A) of this section would not be satisfied. USP may, however, elect to adjust its basis in its FC2 shares such that 16 of the shares have zero basis (reflecting the basis of the FC1 stock) and 4 of the shares have \$20 of basis (reflecting the basis of the land). In such a case, the disposition would not be a triggering event, and the gain recognition agreement would terminate without further effect.

Sale of FC2 (Year 5)

