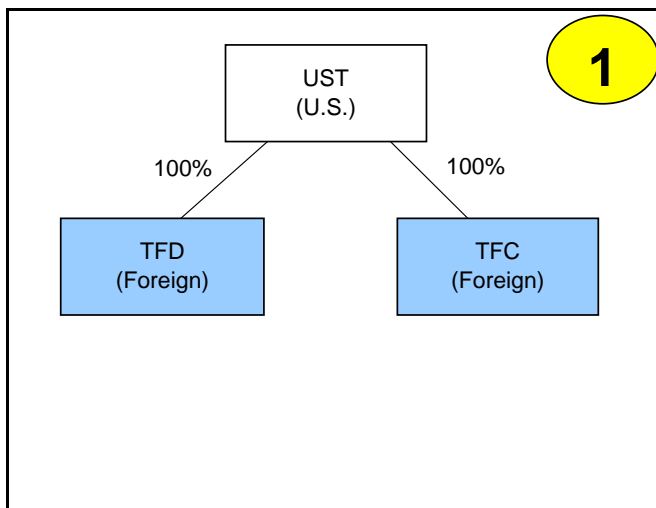
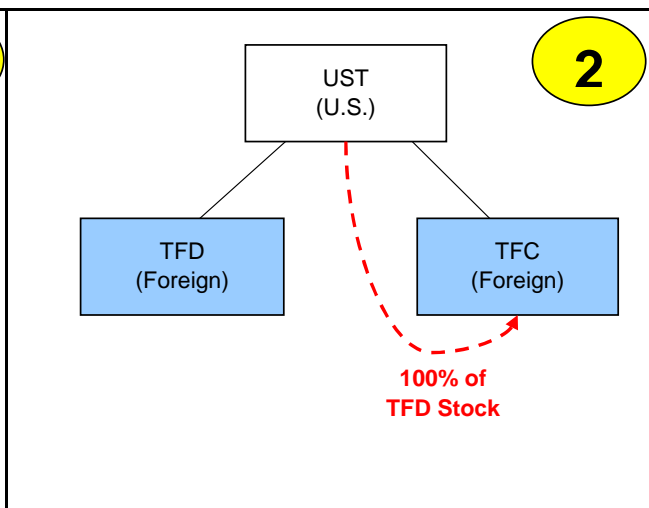


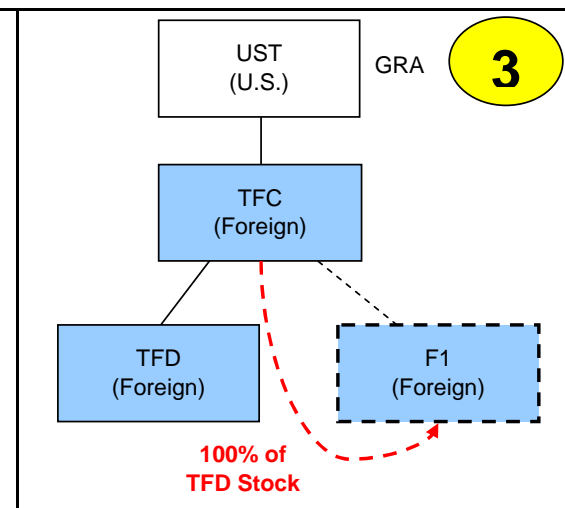
**Initial Structure**



**Outbound 351 Exchange (2003)**



**351 Exchange (2005)**



UST, a domestic corporation, owns 100% of the stock of two foreign corporations, TFC and TFD. In 2003, USP transfers 100% of the stock of TFD to TFC in an exchange to which section 351 applies. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and UST enters into a gain recognition agreement. UST also complies with the notice requirement under §1.367(b)-1(c). In 2005, TFC transfers its TFD stock to F1, also a foreign corporation, in an exchange to which section 351 applies. UST does not file a new gain recognition agreement under §1.367(a)-8(g)(2).

The rules of §1.367(a)-8 apply because the gain recognition agreement was filed before March 7, 2007. Under §1.367(a)-8(e), UST must recognize the gain realized, but not recognized, on its initial transfer of TFD stock. Treas. Reg. § (h)(2)(i) does not apply because the rule in Treas. Reg. § (e)(1)(ii) was already effective under §1.367(a)-8(g)(2). Therefore, UST's only recourse from recognizing the gain subject to the gain recognition agreement is the reasonable cause exception provided in §1.367(a)-8(c)(2).

**Ending Point**

