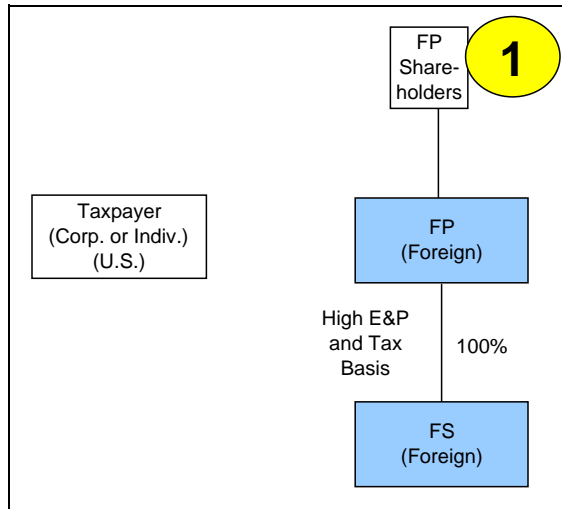
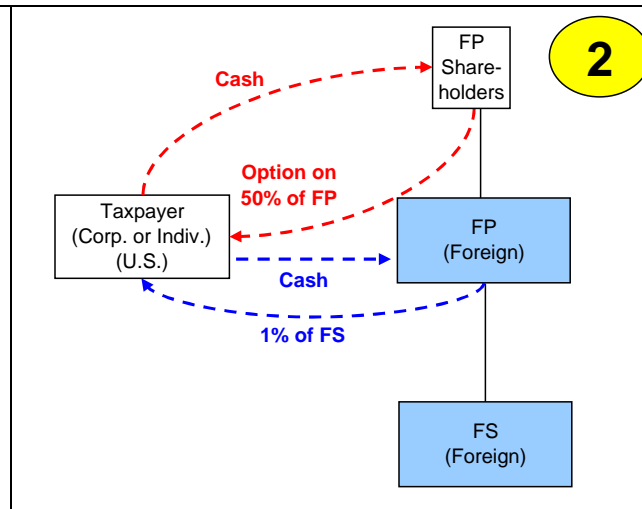


Basis Shifting Tax Shelter

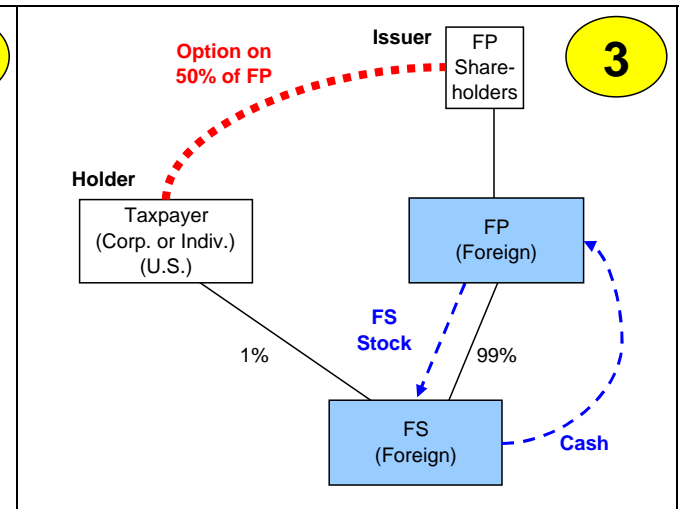
Initial Structure



Taxpayer Acquires 1% Interest in FS and Option to Buy 50% of FP



Redemption of FS Stock Owned by FP

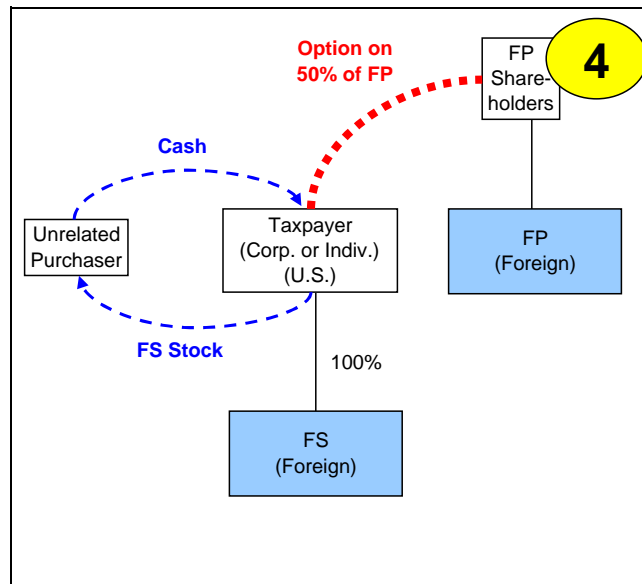


The redemption in box 3 above is treated as dividend under section 302. Section 318(a)(4) applies to deem Taxpayer's option to be exercised. In addition, section 318(a)(3) applies to attribute Taxpayer's ownership of FS **TO** FP. Thus, FP is deemed to own 100% of FS before the redemption and 100% after the redemption.

Because FP no longer owns any shares of FS, FP's basis in the FS shares "shifts" to Taxpayer in accordance with Example 2 of Reg. 1.302-2(c).

Notice 2001-45 provides that the basis does not shift if FP is not subject to U.S. tax on the redemption. In addition, this type of transaction is a "listed transaction".

Taxpayer Sale of FS Stock at a Loss



Ending Point (Before Option Expires)

