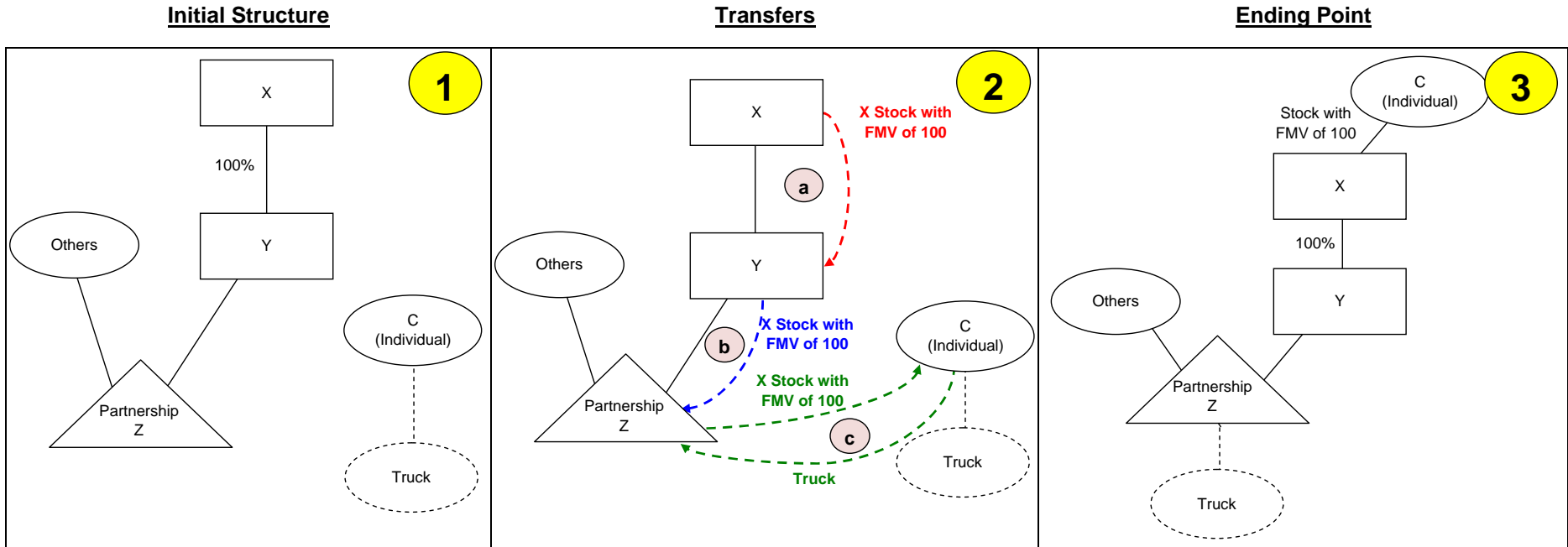


Partnership Exchange of Grandparent Stock for a Truck



X, a corporation, owns all of the outstanding stock of Y corporation. Y is a partner in partnership Z. Z reaches an agreement with C, an individual, to acquire a truck from C in exchange for 10 shares of X stock with a fair market value of \$100. To effectuate Z's agreement with C, X transfers to Y the X stock in a transaction in which, but for this regulation, the basis of the X stock in the hands of Y would be determined with respect to X's basis in the X stock under section 362(a). Y immediately transfers the X stock to Z in a transaction in which, but for this regulation, the basis of the X stock in the hands of Z would be determined under section 723. Z immediately transfers the X stock to C to acquire the truck.

No gain or loss is recognized on the disposition of the X stock by Z. Immediately before Z's disposition of the X stock, Z is treated as purchasing the X stock from X for \$100 of cash indirectly contributed to Z by X through an intermediate corporation, Y. Under section 722, Y's basis in its Z partnership interest is increased by \$100, and, under section 358, X's basis in its Y stock is increased by \$100.

Deemed Transfers

