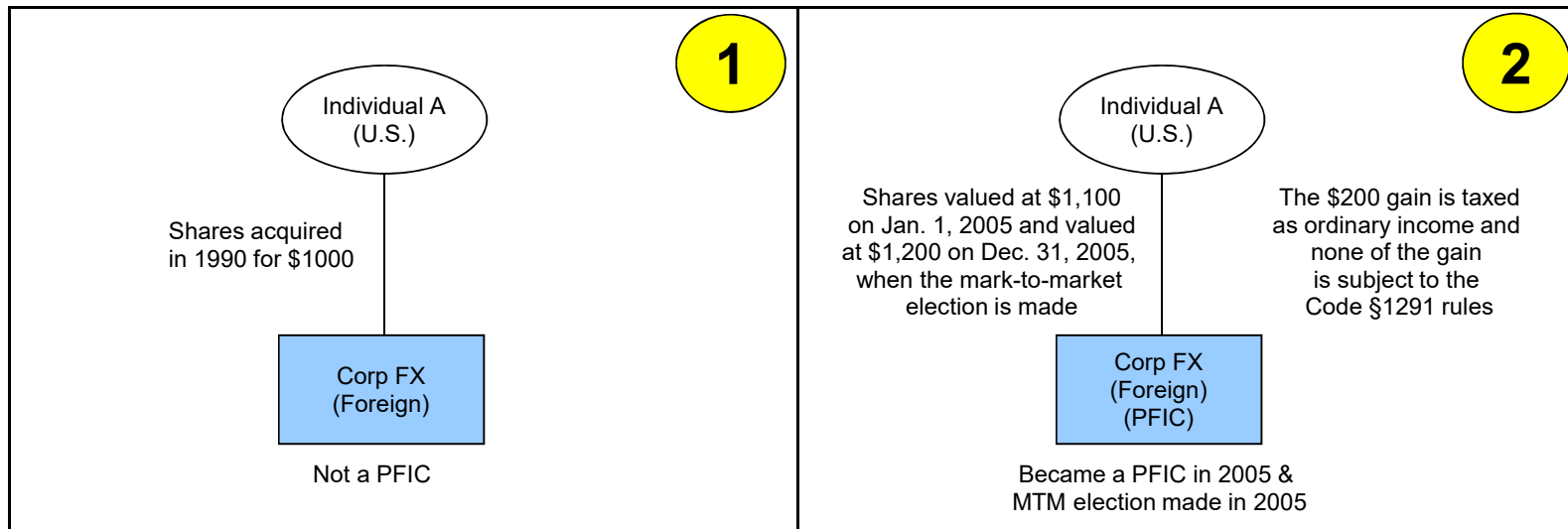


**MTM Election Made in First PFIC Year, Which Was After Acquisition Year**

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

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



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.