Reg. 1.1032-3(e), Example 1

**Subsidiary Exchange of Parent Stock for a Truck**

**Initial Structure**

- X
  - 100%
  - Y
    - FMV=100
    - Truck

**Transfers**

1. X
   - X Stock with FMV of 100

2. X
   - Y
     - C (Individual)
     - X Stock with FMV of 100
     - Truck

**Ending Point**

3. C (Individual)
   - X
     - Y
     - Truck

**Deemed Transfers**

- X
  - a
  - X Stock with FMV of 100
  - Cash contribution of 100

- Y
  - b
  - X Stock with FMV of 100
  - Truck

- C (Individual)
  - c
  - Truck

X, a corporation, owns all of the stock of Y corporation. Y 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 Y'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 C to acquire the truck.

No gain or loss is recognized on the disposition of the X stock by Y. Immediately before Y's disposition of the X stock, Y is treated as purchasing the X stock from X for $100 of cash contributed to Y by X. Under section 358, X's basis in its Y stock is increased by $100.

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