Reg. 1.1032-3(e), Example 5

Parent Stock Purchased At A Discount By Subsidiary's Employee

**Initial Structure**

1. X
   - 100%
   - B (Individual) (Employee of Y)

2. Y

**Purchase of Stock**

1. X
   - B (Individual) (Employee of Y)
   - $80
   - 10 shares of X stock worth $100

2. Y
   - B (Individual) (Employee of Y)
   - $10
   - 10 shares worth $100

**Ending Point**

1. X
   - 100%
   - B (Individual) (Employee of Y)

2. Y

**Deemed Steps**

X, a corporation, owns all of the outstanding stock of Y corporation. B, an individual, is an employee of Y. To compensate B for services provided to Y, B is offered the opportunity to purchase 10 shares of X stock with a fair market value of $100 at a reduced price of $80. B transfers $80 and Y transfers $10 to X as partial payment for the X stock.

No gain or loss is recognized on the deemed disposition of the X stock by Y. Immediately before Y's deemed disposition of the X stock, Y is treated as purchasing the X stock from X for $100, $80 of which Y is deemed to have received from B, $10 of which originated with Y, and $10 of which is deemed to have been contributed to Y by X. Under section 358, X's basis in its Y stock is increased by $10.

HUNDREDS of additional charts at www.andrewmitchel.com