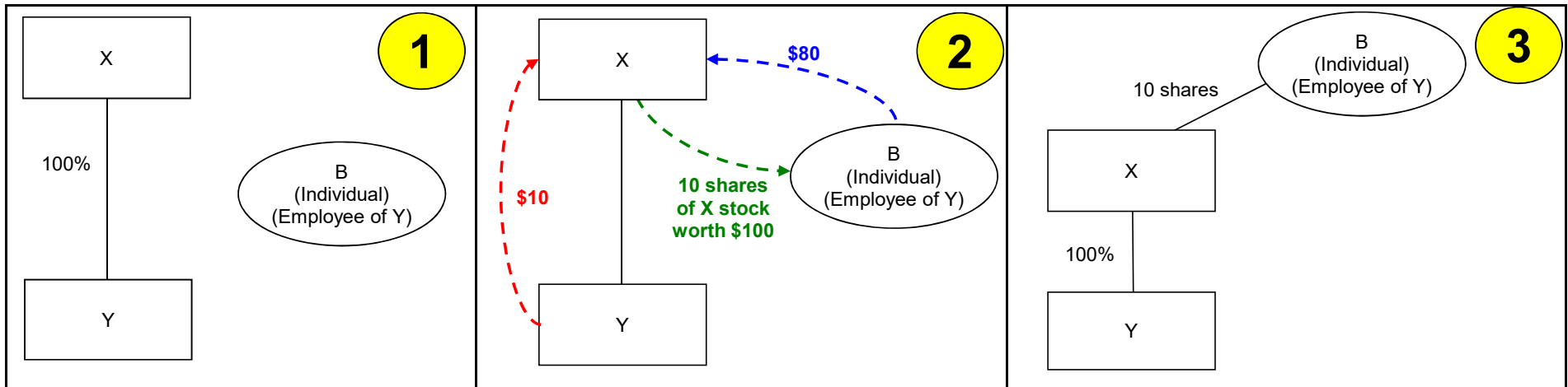


Parent Stock Purchased At A Discount By Subsidiary's Employee

Initial Structure

Purchase of Stock

Ending Point



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.

Deemed Steps

