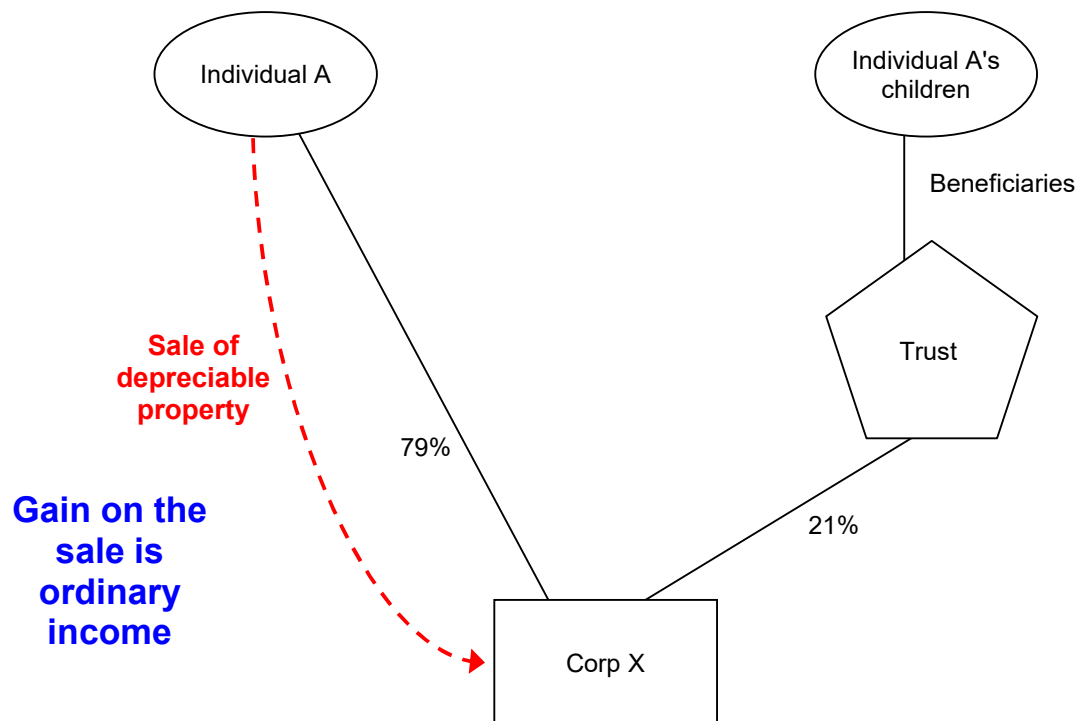


**Reg. 1.1239-1(c)(5),
Example 1**

**Gain on Sale From Shareholder to
Corp Is Ordinary Income**

Copyright © 2022 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



A, an individual, owns 79 percent of the stock (by value) of Corporation X, and a trust for A's children owns the remaining 21 percent of the stock. A's children are deemed to own the stock owned for their benefit by the trust in proportion to their actuarial interests in the trust (section 318(a)(2)(B)). A, in turn, constructively owns the stock so deemed to be owned by his children (section 318(a)(1)(A)(ii)). Thus, A is treated as owning all the stock of Corporation X, and any gain A recognizes from the sale of depreciable property to Corporation X is treated under section 1239 as ordinary income.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)