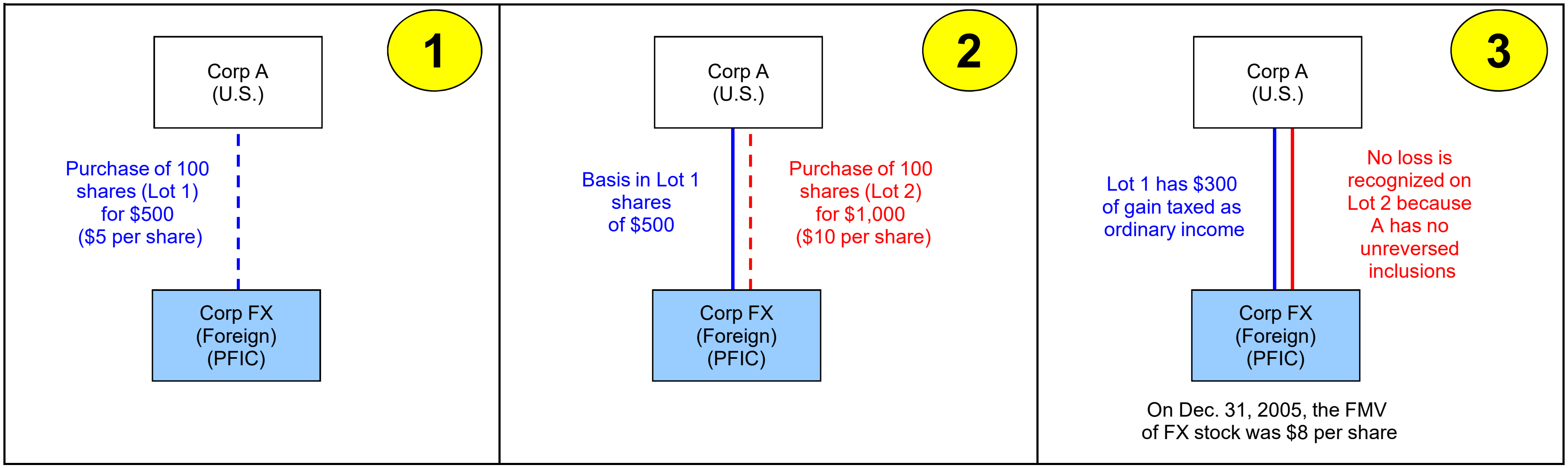
Reg. 1.1296-1(c)(7), Ex. 6

MTM Election With Two Lots of Stock (1 Gain & 1 Loss)

Purchase of First Lot (Jan. 2005) | **Purch. of Second Lot (June 2005)** | **MTM Election (Dec. 2005)**



On January 1, 2005, Corp A, a domestic corporation, purchased 100 shares (first lot) of stock in FX, a PFIC, for $500 ($5 per share). On June 1, 2005, Corp A purchased 100 shares (second lot) of FX stock for $1,000 ($10 per share). Corp A made a timely Code §1296 election with respect to its FX stock for taxable year 2005. On December 31, 2005, the fair market value of FX stock was $8 per share. For taxable year 2005, Corp A includes $300 of gain in gross income as ordinary income under Treas. Reg. §1.1296-1(c)(1) with respect to the first lot, and adjusts its basis in that lot to $800 pursuant to Treas. Reg. §1.1296-1(d)(1). With respect to the second lot, Corp A is not permitted to recognize a loss under Treas. Reg. §1.1296-1(c)(3) for taxable year 2005. Although Corp A's adjusted basis in that stock exceeds its fair market value by $200, Corp A has no unreversed inclusions with respect to that particular lot of stock. On July 1, 2006, Corp A sells 100 shares of FX stock for $900. Assuming that Corp A adequately identifies (in accordance with the rules of Treas. Reg. §1.1012-1(c)) the shares of FX stock sold as being from the second lot, Corp A recognizes $100 of long term capital loss pursuant to Treas. Reg. §1.1296-1(c)(4)(ii).

Sale of Second Lot (Jul. 2006)