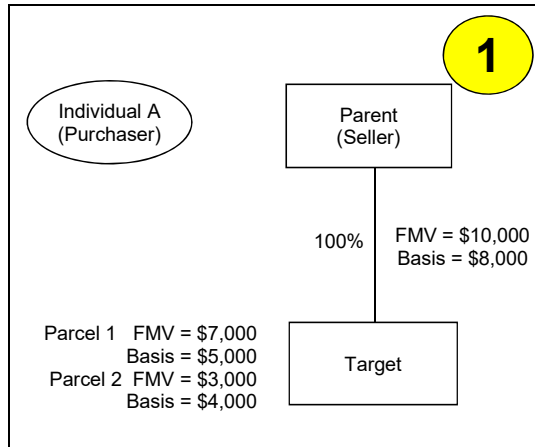


**Reg. 1.336-2(k), Example 1**

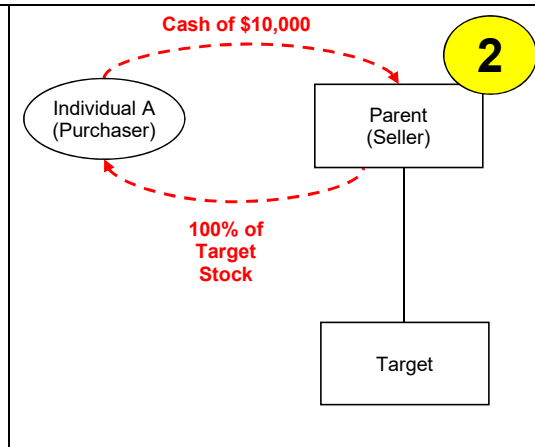
**Section 336(e) Election  
Sale of 100% of Target Stock**

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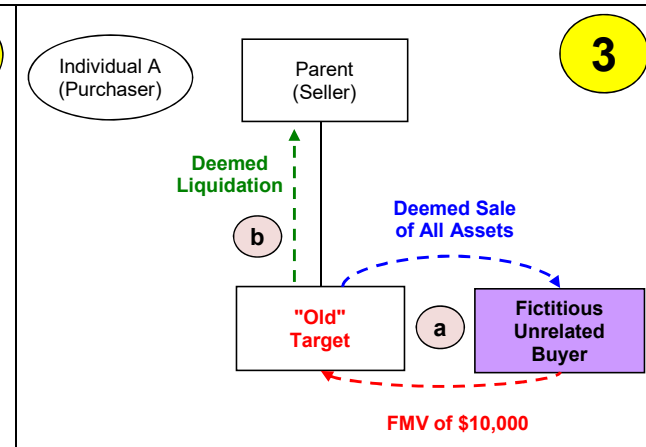
**Initial Structure**



**Acquisition (July 1st)**



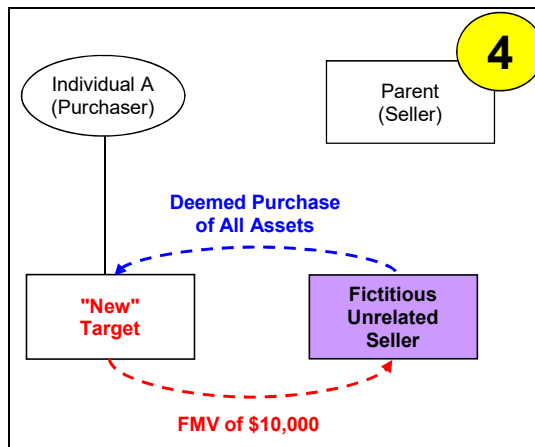
**Deemed Asset Sale & Liquidation  
(At the Close of the Day July 1st)**



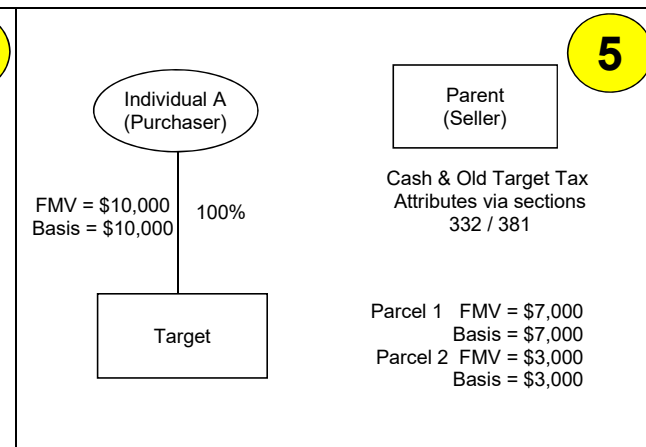
Parent owns all 100 shares of Target's only class of stock. The stock has a basis of \$80 per share. Target's only assets are two parcels of land. Parcel 1 has a basis of \$5,000 and Parcel 2 has a basis of \$4,000. Target has no liabilities. On July 1 of Year 1, Parent sells all 100 shares of Target stock to A for \$100 per share. Parent incurs no selling costs and A incurs no acquisition costs. On July 1, the value of Parcel 1 is \$7,000 and the value of Parcel 2 is \$3,000. Parent makes a section 336(e) election.

The sale of Target stock constitutes a qualified stock disposition. July 1 of Year 1 is the disposition date. Accordingly, pursuant to the section 336(e) election, rather than treating Parent as selling the stock of Target to A, the following events are deemed to occur:

**Deemed Asset Purchase  
(Beginning of the Day July 2nd)**



**Ending Point**



1. Target is treated as if, on July 1, it sold all of its assets to an unrelated person in exchange for the Aggregate Deemed Asset Disposition Price, \$10,000, which is allocated \$7,000 to Parcel 1 and \$3,000 to Parcel 2. Target recognizes gain of \$2,000 on Parcel 1 and loss of \$1,000 on Parcel 2. 2. New Target is then treated as acquiring all its assets from an unrelated person in a single transaction in exchange for the adjusted grossed up basis of \$10,000, which is allocated \$7,000 to Parcel 1 and \$3,000 to Parcel 2. 3. Old Target is treated as liquidating into Parent immediately thereafter, distributing the \$10,000 deemed received in exchange for Parcel 1 and Parcel 2 in a transaction qualifying under section 332. Parent recognizes no gain or loss on the liquidation. A's basis in New Target stock equals \$100 per share, the amount paid for the stock.