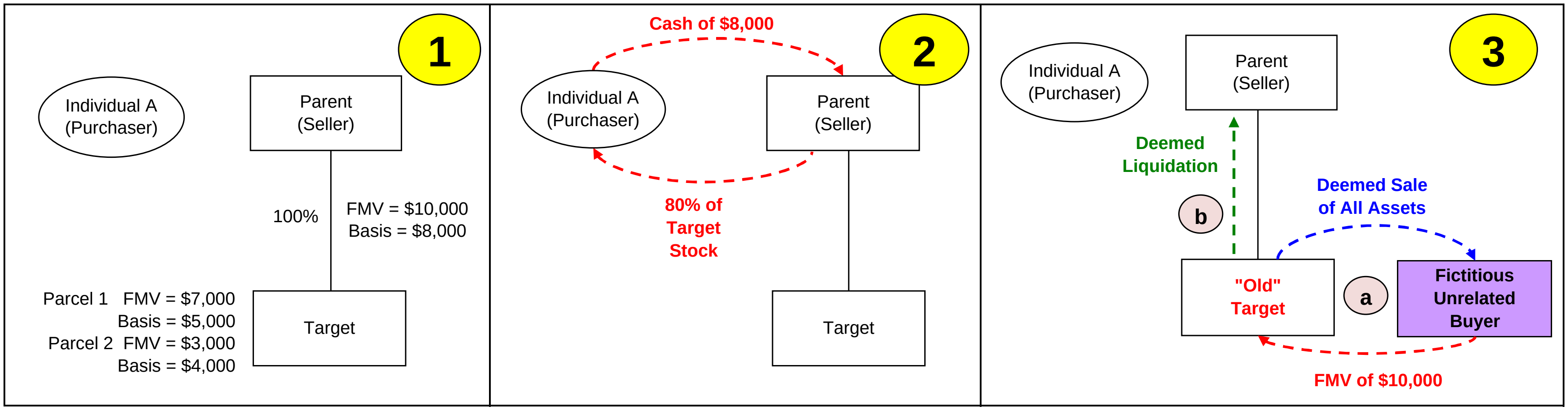
Prop. Reg. 1.336-2(k), Example 2

Section 336(e) Election
Sale of 80% of Target Stock

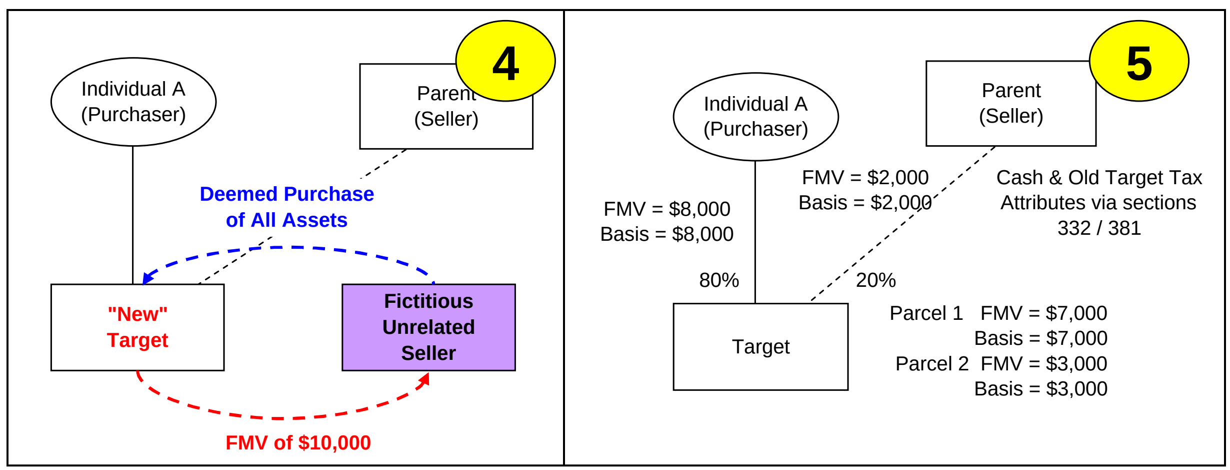
Initial Structure | **Acquisition (July 1st)** | **Deemed Asset Sale & Liquidation (At the Close of the Day July 1st)**



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 80 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. 3. Old Target is treated as liquidating into Parent immediately thereafter, distributing the $10,000 deemed received in exchange for its assets 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. Parent is treated as purchasing from New Target on July 2 the 20 shares of Target stock (New Target stock) not actually sold to A for their fair market value of $2,000 ($100 per share).