A, a United States citizen, owns 100% of the outstanding stock of foreign corporation X. In a transaction to which section 351 applies, A exchanges his stock in X (and other assets) for 100% of the outstanding stock of foreign corporation Y. The transaction is subject to both sections 367(a) and (b). A enters into a gain recognition agreement, makes the election to recognize the gain in the year of the triggering event, and also complies with the notice requirement under §1.367(b)-1(c). In the second year following the initial transfer, A disposes of 60% of the fair market value of the stock of Y, and the requirements of paragraphs (g)(1)(i)(A) and (B) are met with respect to such disposition. In the fourth year following the initial transfer, Y disposes of 50% of the fair market value of the stock of X.

The disposition of 60% of the stock of Y is not a triggering event, and the gain recognition agreement continues in effect. The disposition of X stock, however, is a triggering event. As a result of the subsequent disposition of 50% of the stock of X, A is required to include in income in the year of such disposition 20% (40% of the fair market value of Y multiplied by 50% of the fair market value of X) of the gain that A realized but did not recognize on the initial transfer of the X stock to Y, and pay any applicable interest.