

**Reg. 1.7874-2(k),
Example 10**

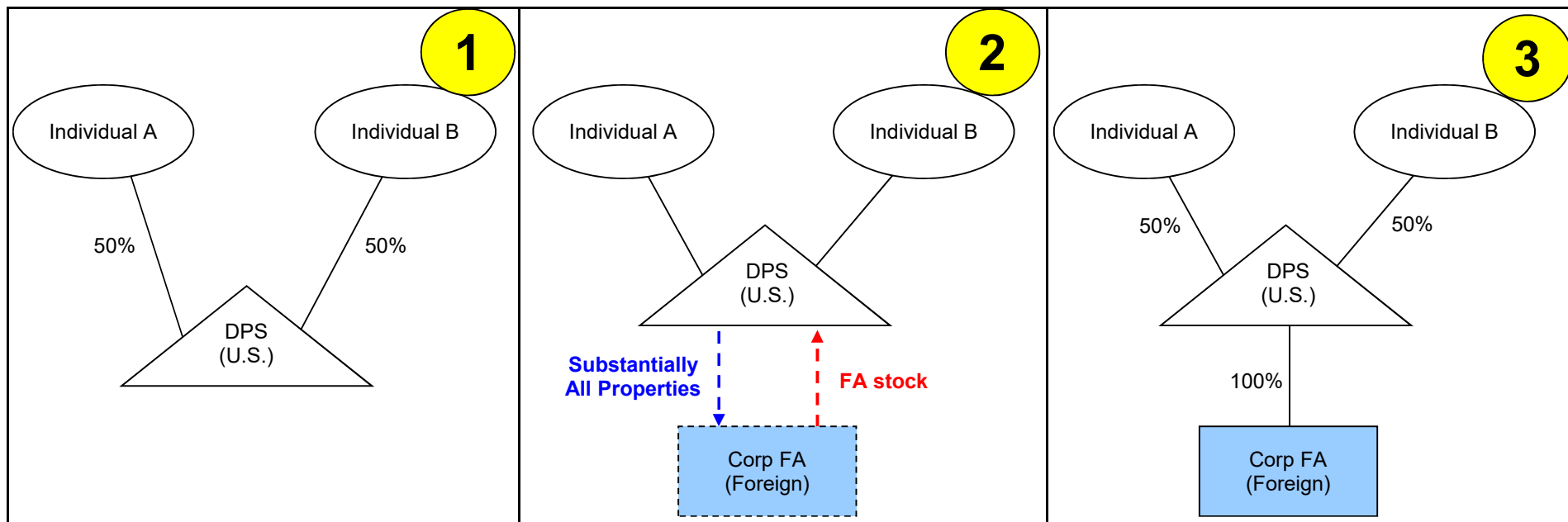
**Stock Held "By Reason of" -
Outbound 351 By Partnership**

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Initial Structure

Outbound 351 Exchange

Ending Point



DPS is a domestic partnership. Individuals A and B equally own DPS. DPS transfers substantially all of its properties constituting a trade or business to FA, a newly-formed foreign corporation, solely in exchange for FA stock. DPS retains the FA stock after the transaction.

For purposes of section 7874(a)(2)(B)(ii) individuals A and B are treated as holding a proportionate amount (that is, an equal amount) of the FA stock held by DPS by reason of holding an interest in DPS.