DC1 is a domestic corporation. F1 is a foreign corporation. Individual A wholly owns DC1 and F1. DC1 has a $40x value and F1 has a $60x value. Individual A transfers all of the DC1 stock and F1 stock to FA, a newly-formed foreign corporation, in exchange solely for FA stock.

For purposes of section 7874(a)(2)(B)(ii) individual A is considered to hold 40% of the FA stock by reason of holding stock in DC1 ($100x FA stock multiplied by $40x/$100x, the relative value of the DC1 stock to all the property transferred by A to FA).