P, a corporation, holds 85 shares of DT, a domestic corporation. The remaining 15 shares of DT stock are held by Individual A. P and Individual A transfer their shares of DT stock to FA, a newly formed foreign corporation, in exchange for 85 and 15 shares of FA stock, respectively, and PRS, a partnership with individual partners, transfers $75x of cash to FA in exchange for the remaining 75 shares of FA stock.

Under Treas. Reg. §1.7874-4T(i)(7)(i), cash constitutes nonqualified property. Accordingly, the 75 shares of FA stock transferred by FA to PRS in exchange for $75x of cash constitute disqualified stock described in Treas. Reg. §1.7874-4T(c)(1)(i) by reason of Treas. Reg. §1.7874-4T(c)(1)(i). Furthermore, Treas. Reg. §1.7874-4T(c)(2) does not reduce the amount of disqualified stock described in Treas. Reg. §1.7874-4T(c)(1)(i) because the transfer of FA stock in exchange for $75x of cash increases the fair market value of the assets of FA by $75x. Therefore, under Treas. Reg. §1.7874-4T(b), the 75 shares of FA stock transferred to PRS are not included in the denominator of the ownership fraction. Although PRS's shares of FA stock are excluded from the denominator of the ownership fraction under Treas. Reg. §1.7874-4T(b), such shares of FA stock nonetheless are taken into account for purposes of determining whether P is a member of the expanded affiliated group that includes FA under Treas. Reg. §1.7874-4T(h). Because P holds 48.6% of the FA stock (85/175) after the acquisition, it is not a member of the expanded affiliated group that includes FA. In addition, the acquisition does not qualify as an internal group restructuring described in Treas. Reg. §1.7874-1(c)(2) because P does not hold, directly or indirectly, 80% or more of the shares of FA stock (by vote and value) after the acquisition. Therefore, the FA stock held by P (along with the FA stock held by Individual A) is included in the numerator and the denominator of the ownership fraction. Thus, the ownership fraction is 100/100.