P, a corporation, wholly owns DT, a domestic corporation. P transfers all of its shares of DT stock to FA, a newly formed foreign corporation, in exchange for 49 shares of FA stock, and R, a corporation, transfers marketable securities (within the meaning of Treas. Reg. §1.7874-4T(i)(6)) with a value equal to that of 16 shares of FA stock and qualified property (within the meaning of Treas. Reg. §1.7874-4T(i)(7)) with a value equal to that of 35 shares of FA stock to FA in exchange for the remaining 51 shares of FA stock.

16 of the 51 shares of FA stock transferred to R constitute disqualified stock described in Treas. Reg. §1.7874-4T(c)(1) by reason of Treas. Reg. §1.7874-4T(c)(1)(i), and 35 of such shares do not constitute disqualified stock. Treas. Reg. §1.7874-4T(c)(2) does not reduce the amount of disqualified stock described in Treas. Reg. §1.7874-4T(c)(1) because the transfer of FA stock in exchange for the marketable securities increases the fair market value of the assets of FA by the fair market value of the marketable securities transferred. Therefore, under Treas. Reg. §1.7874-4T(b), 16 of the 51 shares of FA stock transferred to R are not included in the denominator of the ownership fraction. Although 16 of the 51 shares of FA stock that are transferred to R are excluded from the denominator of the ownership fraction, under Treas. Reg. §1.7874-4T(h), all 51 of R's shares of FA stock are taken into account for purposes of determining whether P or R is a member of the expanded affiliated group that includes FA. Because P holds 49% of the shares of FA stock (49/100), it is not a member of the expanded affiliated group that includes FA, and its FA stock is included in both the numerator and the denominator of the ownership fraction. Because R holds 51% of the shares of FA stock (51/100), it is a member of the expanded affiliated group that includes FA, and its FA stock is included in both the numerator and the denominator of the ownership fraction. However, the acquisition results in a loss of control described in Treas. Reg. §1.7874-4T(b) because P does not hold, in the aggregate, directly or indirectly, more than 50% of the shares of FA stock (by vote or value) of R, FA, or DT after the acquisition. Accordingly, the 51 shares of FA stock held by R would be included in the denominator of the ownership fraction under Treas. Reg. §1.7874-4T(h). In addition, the 35 shares of FA stock received by R that do not constitute disqualified stock are included in the denominator. Thus, the ownership fraction is 49/84.