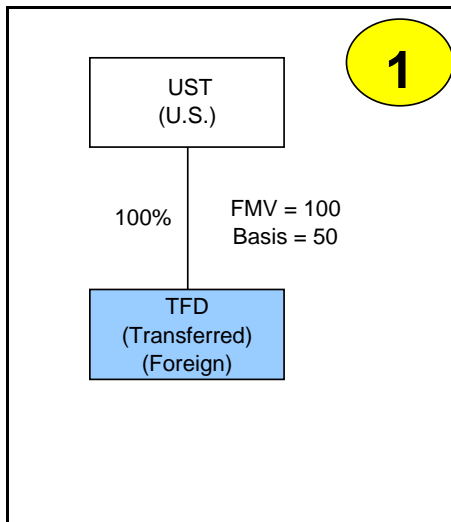


**Temp. Reg. 1.367(a)-8T(f)(1)(iii),
Example**

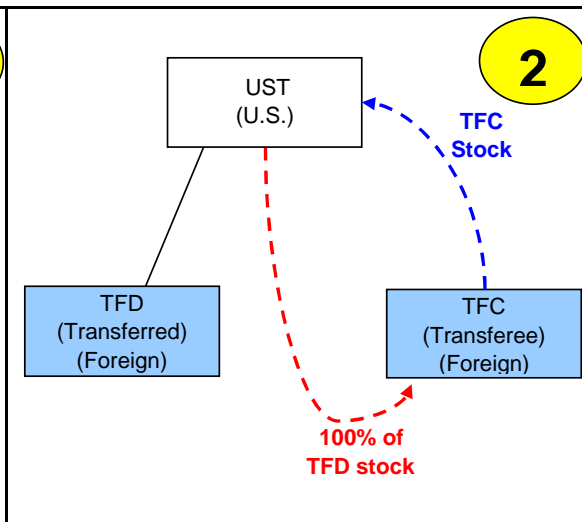
**Outbound 351 Exchange Followed
by Foreign-to-Foreign 351 With Boot**

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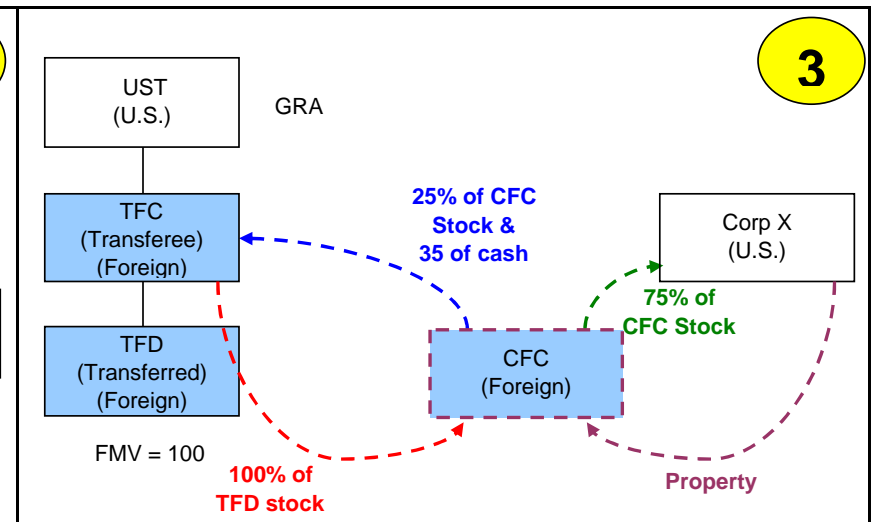
Initial Structure



Outbound 351 Exchange



Foreign to Foreign 351 Exchange (2 years later)



UST, a domestic corporation owning 100% of the stock of TFD, a foreign corporation, transfers all of the TFD stock to newly-formed TFC, a foreign corporation, in an exchange to which section 351 applies. In the exchange, UST receives 100% of the stock of TFC. The transaction is subject to both sections 367(a) and (b). All of the requirements of §1.367(a)-3(b)(1) are satisfied, and UST enters into a gain recognition agreement to qualify for nonrecognition treatment and does not make the election to recognize gain in the year of the triggering event. UST also complies with the notice requirement under §1.367(b)-1(c). At the time of the initial transfer, UST has a basis of \$50 in the stock of TFD, which has a fair market value of \$100. Thus, the amount of gain subject to the gain recognition agreement is \$50. Two years after the initial transfer, TFC and X, an unrelated domestic corporation, form CFC, a foreign corporation. TFC transfers the stock of TFD to CFC in an exchange to which section 351 applies. UST also complies with the notice requirement under §1.367(b)-1(c). At the time of the transfer, TFC's basis in the TFD stock equals \$50 and the fair market value remains \$100. In the exchange, TFC receives 25% of the stock of CFC and \$35 of cash. Before taking into account adjustments made under Treas. Reg. 1.367(a)-8T (b)(3)(iv), TFC would recognize \$35 of gain under section 351(b). X transfers property to CFC in exchange for the remaining 75% of the CFC stock. TFC's disposition of the TFD stock is a triggering event. However, UST complies with the reporting requirements providing for an exception to the triggering event.

Pursuant to the terms of the gain recognition agreement, UST must recognize \$35 of the \$50 gain realized, but not recognized, on the initial transfer. The new gain recognition agreement that UST files will reflect the \$15 that remains of the gain realized, but not recognized, on the initial transfer. TFC's basis in the TFD stock is increased (as of the date of the initial transfer) by \$35 to \$85. UST's basis in the TFC stock is also increased by \$35. Finally, after taking account of the adjustments, TFC must recognize \$15 of gain under section 351(b).

Ending Point

