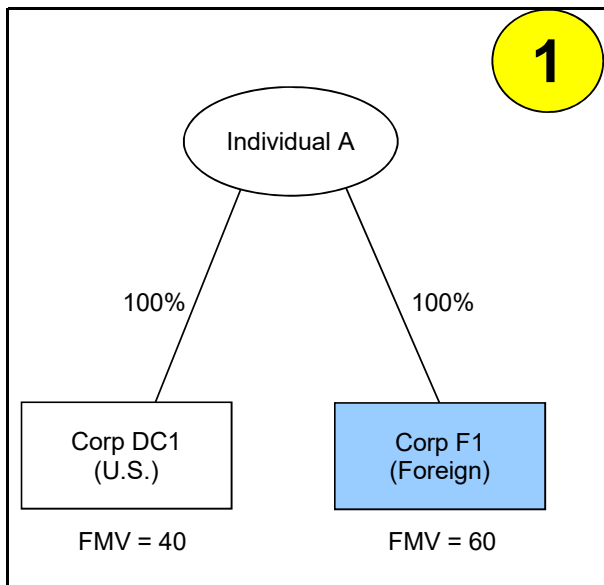


**Reg. 1.7874-2(k),
Example 8**

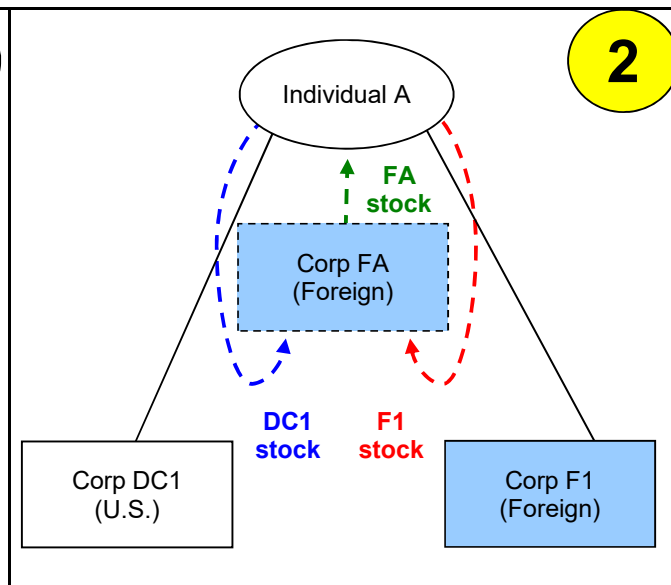
**Stock Held "By Reason of"
Exchange of Stock &
Other Property**

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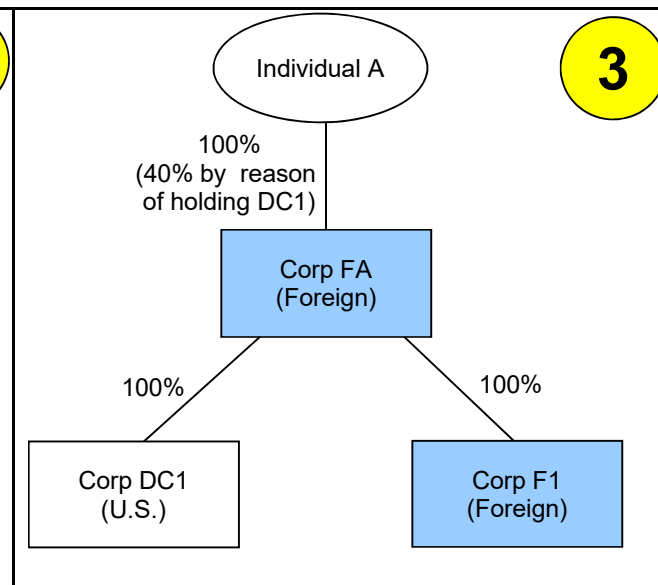
Initial Structure



Outbound 351 Exchange



Ending Point



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).