Revenue Ruling 68-43

Deemed Stock Dividend on 351 Exchange

**Initial Structure**

X (U.S.)

100% 100 shares of common stock with FMV of 5 per share

Y (Foreign)

FMV = 500

**Exchange**

X (U.S.)

100 additional Y Shares

Cash of 300

Y (Foreign)

200 shares of common stock with FMV of 4 per share

**Ending Point**

X (U.S.)

Y (Foreign)

FMV = 800

X, a domestic corporation, owns all of the outstanding stock of Y, a foreign corporation. Y has 100 shares of common stock outstanding which have a fair market value of 5x dollars per share. X proposes to transfer 300x dollars to Y in exchange for 100 additional shares of Y common stock so that after the transfer 200 shares of Y common stock will be outstanding which will have a fair market value of 4x dollars per share. No other property will be transferred to Y in connection with the transaction and no services have been or will be performed for Y in return for the Y stock.

X will receive 100 shares of Y common stock having a fair market value of 4x dollars per share or a total fair market value of 400x dollars but will have transferred only 300x dollars of cash to Y. Section 1.351-1(b)(1) provides, in part, that where stock is received in disproportion to the interest in the property transferred, the entire transaction will be given tax effect in accordance with its true nature. The true nature of the proposed transaction is that X will exchange 300x dollars for 60 shares of Y common stock having a fair market value of 5x dollars per share in an exchange described in section 351. Y will issue 40 additional shares of its common stock to X. The additional shares are not in payment for other property being transferred to Y by X and are not in payment for services to be furnished by X, nor are the additional shares being issued to X for any other type of consideration. Accordingly, the 40 shares of Y stock will be treated as the distribution of a stock dividend which will not be includible in the gross income of X under section 305(a).

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