

Reg. Section 1.1245-2(c)(2)(i)(a)

Definition of recomputed basis.

(c) Adjustments reflected in adjusted basis immediately after certain acquisitions—

(1) Zero.

- (i) If on the date a person acquires property his basis for the property is determined solely by reference to its cost (within the meaning of section 1012), then on such date the amount of the adjustments reflected in his adjusted basis for the property is zero.
- (ii) If on the date a person acquires property his basis for the property is determined solely by reason of the application of section 301(d) (relating to basis of property received in corporate distribution) or section 334(a) (relating to basis of property received in a liquidation in which gain or loss is recognized), then on such date the amount of the adjustments reflected in his adjusted basis for the property is zero.
- (iii) If on the date a person acquires property his basis for the property is determined solely under the rules of section 334 (b)(2) or (c) relating to basis of property received in certain corporate liquidations), then on such date the amount of the adjustments reflected in his adjusted basis for the property is zero.
- (iv) If as of the date a person acquires property from a decedent such person's basis is determined, by reason of the application of section 1014(a), solely by reference to the fair market value of the property on the date of the decedent's death or on the applicable date provided in section 2032 (relating to alternate valuation date), then on such date the amount of the adjustments reflected in his adjusted basis for the property is zero.

(2) Gifts and certain tax-free transactions.

- (i) If property is disposed of in a transaction described in subdivision (ii) of this subparagraph, then the amount of the adjustments reflected in the adjusted basis of the property in the hands of a transferee immediately after the disposition shall be an amount equal to:



- (a) The amount of the adjustments reflected in the adjusted basis of the property in the hands of the transferor immediately before the disposition, minus

- (b) The amount of any gain taken into account under section 1245(a)(1) by the transferor upon the disposition.
- (ii) The transactions referred to in subdivision (i) of this subparagraph are:
 - (a) A disposition which is in part a sale or exchange and in part a gift (see paragraph (a)(3) of § 1.1245-4).
 - (b) A disposition (other than a disposition to which section 1245(b)(6)(A) applies) which is described in section 1245(b)(3) (relating to certain tax-free transactions), or
 - (c) An exchange described in paragraph (e)(2) of § 1.1245-4 (relating to transfers described in section 1081(d)(1)(A)).
- (iii) The provisions of this subparagraph may be illustrated by the following example:

Example. Jones transfers section 1245 property to a corporation in exchange for stock of the corporation and \$1,000 cash in a transaction which qualifies under section 351 (relating to transfer to a corporation controlled by transferor). Before the exchange the amount of the adjustments reflected in the adjusted basis of the property is \$3,000. Upon the exchange \$1,000 gain is recognized under section 1245(a)(1). Immediately after the exchange, the amount of the adjustments reflected in the adjusted basis of the property in the hands of the corporation is \$2,000 (that is, \$3,000 minus \$1,000).