

**Internal Revenue Service, Treasury**

**§ 1.544-4**

*Example.* A and B, two individuals, are the exclusive and equal beneficiaries of a trust or estate which owns the entire capital stock of the M Corporation. The M Corporation in turn owns the entire capital stock of the N Corporation. Under such circumstances the entire capital stock of both the M Corporation and the N Corporation shall be considered as being owned equally by A and B as the individuals owning the beneficial interest therein.

**§ 1.544-3 Constructive ownership by reason of family and partnership ownership.**

(a) The following example illustrates the application of section 544(a)(2), relating to constructive ownership by reason of family and partnership ownership.

*Example.* The M Corporation at some time during the last half of the taxable year, had 1,800 shares of outstanding stock, 450 of which were held by various individuals having no relationship to one another and none of whom were partners, and the remaining 1,350 were held by 51 shareholders as follows:

Relationships	Shares	Shares	Shares	Shares	Shares
An individual .....	(A)100	(B)20	(C)20	(D)20	(E)20
His father .....	(AF)10	(BF)10	(CF)10	(DF)10	(EF)10
His wife .....	(AW)10	(BW)40	(CW)40	(DW)40	(EW)40
His brother .....	(AB)10	(BB)10	(CB)10	(DB)10	(EB)10
His son .....	(AS)10	(BS)40	(CS)40	(DS)40	(ES)40
His daughter by former marriage (son's half-sister) .....	(ASHS)10	(BSHS)40	(CSHS)40	(DSHS)40	(ESHS)40
His brother's wife .....	(ABW)10	(BBW)10	(CBW)10	(DBW)160	(EBW)10
His wife's father .....	(AWF)10	(BWF)10	(CWF)110	(DWF)10	(EWF)10
His wife's brother .....	(AWB)10	(BWB)10	(CWB)10	(DWB)10	(EWB)10
His wife's brother's wife .....	(AWBW)10	(BWBW)10	(CWBW)10	(DWBW)10	(EWBW)110
Individual's partner .....	(AP)10	.....	.....	.....	.....

By applying the statutory rule provided in section 544(a)(2) five individuals own more than 50 percent of the outstanding stock as follows:

A (including AF, AW, AB, AS, ASHS, AP) .....	160
B (including BF, BW, BB, BS, BSHS) .....	160
CW (including C, CS, CWF, CWB) .....	220
DB (including D, DF, DBW) .....	200
EWB (including EW, EWF, EWBW) .....	170

Total, or more than 50 percent .....

Individual A represents the obvious case where the head of the family owns the bulk of the family stock and naturally is the head of the group. A's partner owns 10 shares of the stock. Individual B represents the case where he is still head of the group because of the ownership of stock by his immediate family. Individuals C and D represent cases where the individuals fall in groups headed in C's case by his wife and in D's case by his brother because of the preponderance of holdings on the part of relatives by marriage. Individual E represents the case where the preponderant holdings of others eliminate that individual from the group.

(b) For the restriction on the applicability of the family and partnership ownership rules of this section, see paragraph (b) of § 1.544-1. For rules relating to constructive ownership as actual ownership, see § 1.544-6.

**§ 1.544-4 Options.**

The shares of stock which may be acquired by reason of an option shall be considered to be constructively owned by the individual having the option to acquire such stock. For example: If C, an individual, on March 1, 1955, purchases an option, or otherwise comes into possession of an option, to acquire 100 shares of the capital stock of M Corporation, such 100 shares of stock shall be considered to be constructively owned by C as if C had actually acquired the stock on that date. If C has an option on an option (or one of a series of options) to acquire such stock, he shall also be considered to have constructive ownership of the stock which may be acquired by reason of the option (or the series of options). Under such circumstances, C shall be considered to have acquired constructive ownership of the stock on the date he acquired his option. For the restriction on the applicability of the rule of this section, see paragraph (b) of § 1.544-1.