Setup: Parent (1) short sells stocks a_1, a_2, ... a_n, (2) forms subsidiaries A_1, A_2, ... A_n and deposits the proceeds pro rata (e.g.,., proceeds from shorting a_1 are contributed to A_1), and (3) and uses the proceeds to have A_1 buy a_1 stock, A_2 buy a_2 stock, ... A_n to buy a_n stock.

Arbitrage step: After some time, the parent:

1. For all subsidiaries A_1, A_2, ... A_n which have built-in gain in their respective stocks:

   Parent liquidates the subsidiary. Parent now holds that stock with carry-over basis pursuant to Code section 334, and no gain or less recognized pursuant to Code sections 332/337. Parent then sells all the stock on the open market, and recognizes gain equal to the built-in gain (FMV minus basis) on the stock. Here, the triple tax gain (i.e., Parent's gain on its A_1, A_2, ... A_n stock) is thrown out by Section 332.

2. For all subsidiaries A_1, A_2, ... A_n which have built-in loss in their respective stocks:

   Parent sells the stock of the subsidiary to Purchaser X (no 338(h)(10) election is taken). By Code section 1001, Parent recognizes the capital loss on the sale of its stock in A_1, A_2, ... A_n, and by Code section 1012, Purchaser X gets cost basis. Here, the triple tax loss (i.e., Parent's loss on its A_1, A_2, ... A_n stock) has been recognized. Because Purchaser X has also acquired the double tax loss (e.g., A_1*'s* built-in loss on a_1 stock), Purchaser is willing to pay more than the FMV of a_1, a_2, ... a_n for the A_1, A_2, ... A_n stock (the "Windfall Amount").

3. Parent closes out its short position with the proceeds of the sales.

Result: Parent has gained an after-tax windfall equal to the Windfall Amount - tax on Windfall Amount, as follows:

Proceeds from the liquidation/sale of A_1, A_2, ... A_n and a_1, a_2, ... a_n	FMV of a_1, a_2, ... a_n + Windfall Amount
Cost of closing out the short position	FMV of a_1, a_2, ... a_n
Gross proceeds	Windfall Amount
Tax payable	Corporate tax on Windfall Amount [gain or loss on stock a_1, a_2, ... a_n is a wash due to gain or loss on the short position]
Windfall after-tax gain	Windfall Amount - corporate tax on Windfall Amount

Limitations:

- You need substantial capital to open the short position.
- You need a buyer for the A_1, A_2, ... A_n stock. In theory this shouldn't be difficult, because their only asset is the stock of a publicly-traded company.