ASSIGNMENT – 1ST WEEK

INTRODUCTION


Regs: §§301.7701-1, 301.7701-2, 301.7701-3, 301.7701-4.

B&E: Chapters 1 and 2.

ASSIGNMENT – 2ND WEEK

REQUIREMENTS OF § 351 NONRECOGNITION

Code: §§351, 358(a)(1), 368(c), 1001, 1012, 1032.

Regs: §§1.351-1, 1.1001-1(a), 1.1002-1, 1.1032-1.


B&E: ¶¶1.04; 3.01, 3.02, 3.03, 3.04, 3.07-3.09, 3.12, 3.15[1]; 5.06[1], 5.07.
ASSIGNMENT – 3RD WEEK

TRANSFER OF PROPERTY; RECEIPT OF BOOT; GAIN RECOGNITION; BASIS DETERMINATION

Code: §§267(a)(1), 267(b)(2), 351, 358, 362(a), 362(c), 362(d), 362(e), 7701(a)(42).


B&E: ¶¶3.04; 3.05, 3.10-3.14.

ASSIGNMENT – 4TH WEEK

TREATMENT OF LIABILITIES; MIDSTREAM TRANSFERS

Code: §357.

Regs: §§1.357-1, 1.357-2.


B&E: ¶¶3.06, 3.16-3.19.

ASSIGNMENT – 5TH WEEK

CAPITAL STRUCTURE – DEBT/EQUITY

Code: Skim §§163(a), 163(e)(5), 163(f), 163(i), 243, 246(b), 246(c), 246A, 279, 385, 1032, 1059, 1271(a)(1).

ASSIGNMENT – 6TH WEEK

DISTRIBUTIONS IN GENERAL; EARNINGS AND PROFITS

Code: §§61(a)(7), 301, 312, 316(a), 317(a).

Regs: §§1.61-9(c), 1.301-1(a)-1.301-1(c), 1.301-1(f) Ex. (1), 1.301-1(g), 1.301-1(j), 1.301-1(l), 1.301-1(m), 1.451-1(a), 1.451-2(b), 1.312-1, 1.312-6, 1.316-1(a), 1.316-2(a), 1.316-2(b), 1.316-2(c), 1.317-1, 1.6042-2(b).


B&E: ¶¶1.08; 4.01-4.04, 4.62; 5.05.

ASSIGNMENT – 7TH WEEK

DISTRIBUTIONS IN KIND AND CONSTRUCTIVE DISTRIBUTIONS

Code: §§61(a)(3), 301, 311, 312, 316(a), 317(a), 337(d)(1), 453(a).

Regs: §§1.301-1(g), 1.312-3, 1.312-4, 1.312-7(c)(1), 1.312-7(c)(2) Ex. (3).


B&E: ¶¶8.05, 8.20-8.22.

ASSIGNMENT – 8TH WEEK

STOCK REDEMPTIONS AND PARTIAL LIQUIDATIONS

Code: §§61(a)(3), 61(a)(7), 172(h), 267(a)-267(c), 302, 312(a), 312(n)(7), 317(b), 318, 1001, 1059(e)(1).
ASSIGNMENT – 9TH WEEK

REDEMPTIONS (continued)


Regs: §§1.302-2(c), 1.302-4; 1.346-1.


ASSIGNMENT – 10TH WEEK

REDEMPTIONS BY AFFILIATED CORPORATIONS


Regs: §§1.302-2(c), 1.304-1, 1.304-5; 1.318-1(b)(1).

B&E: ¶¶ 9.05, 9.09, 9.24[4].

ASSIGNMENT – 11TH WEEK

NON TAXABLE STOCK DISTRIBUTIONS; PREFERRED STOCK BAILOUTS

Code: §§305(a), 305(d), 305(f), 306-307. Scan §§61, 170(e)(1)(A), 301(a), 312(d), 317(a), 318; 1014, 1223(5), 1223(11).


B&E: ¶¶8.40, 8.41[1], 8.41[4], 8.42[1], 8.42[3]; Chapter 8, Part D

ASSIGNMENT – 12TH WEEK

COMPLETE LIQUIDATIONS

Code: §§331, 334(a), 336. Scan: §§101(a)(2)(B), 165(f), 165(g), 172(a), 172(b)(1)(A), 267(a)(1), 267(b), 267(c) 346(a), 453(h), 453B(a), 453B(h), 1001, 1012, 1014, 1016(a)(1), 1060, 1211, 1212(a)(1), 1212(b)(1), 1222, 1231(a), 1231(b), 1239, 1244, 1250(a)(1), 1250(b)(1), 6901(a)(1)(A)(i), 7701(g).


ASSIGNMENT – 13TH WEEK

SUBSIDIARY LIQUIDATIONS

Code: §§172(h), 269(b), 269(c), 279, 332, 334(b), 336-338, 381(a)(1), 453(d), 1271(a)(1), 1504(a)(2), 1504(a)(4).

Regs: §§1.332-1-1.332-6, 1.334-1(b), 1.381(c)(2).


PROBLEM SET #1

(1)  \(A\) wants to transfer land worth $100 with a $50 basis to \(X\) for $100 in cash. How much income will \(A\) realize and recognize, and what will be \(X\)’s basis in the land? Does the income recognition change if \(X\) transfers its own stock in the exchange? If so, under what circumstances will it change, and conceptually, why should it change?

(2)  \(A\) contributes property to \(X\), a newly formed corporation, in exchange for 75 shares. \(B\) contributes services to \(X\) in exchange for 25 shares. The shares entitle the holder to 1 vote per share. Does §351 apply to the contributions of \(A\) and \(B\)?

(3)  \(A\) contributes to \(X\), a newly formed corporation, property worth $80 with a basis of $60 in exchange for 20 shares. \(B\) (an employee of \(A\)) contributes to \(X\) property worth $20 with a basis of $10 in exchange for 80 shares. How much income must \(A\) and \(B\) recognize?

(4)  \(A\) owns all 90 shares of Class A voting stock and all 90 shares of Class C nonvoting stock of \(X\). \(B\) owns all 10 shares of Class B voting stock and all 10 shares of Class D nonvoting stock of \(X\). The voting shares entitle the holder to 1 vote per share. Does \(A\) control \(X\) under §368(c)?

(5)  \(A\) contributes appreciated property worth $80, with an adjusted basis of $60, to newly formed \(X\) and in exchange for all of the 80 outstanding shares of \(X\). Immediately thereafter, \(A\) gives 20 shares to \(B\), \(A\)’s employee, in payment of accrued wages. Does §351(a) apply to \(A\)’s exchange of property for stock? How much gross income must \(A\) and \(B\) recognize, if any?

(6)  \(A\) owns all the stock of \(X\), which is worth $1,000. \(X\) wants to acquire land worth $75 (A/B $100) from \(B\). \(A\) proposes to transfer $1 of cash to \(X\) at the same time \(B\) transfers the land to \(X\). Will \(B\) recognize loss on the transfer of the depreciated land?

(7)  \(A\) owns 20 percent of \(T\)’s stock, which is highly appreciated. \(A\) is 83 years old, \(A\) does not want to sell but wants a continuing equity interest in \(T\)’s business and no gain recognition. The remaining 80 percent of \(T\)’s stock is publicly held. \(X\) wants to acquire at least 80 percent \(T\)’s stock for cash but knows it cannot get that much stock in a tender offer. How can \(A\) and \(X\) use §351 to cash out of the public and satisfy \(A\)’s desires? Why does \(A\) feel this way?
PROBLEM SET #2

Assumptions: Except as otherwise stated, $A$ starts out with nondepreciable real property (a capital asset) worth $100 (adjusted basis $40) and ends up with cash of $50 plus a 50 percent interest in $X$, a newly organized corporation that owns the property.

In each problem, determine the following:

1. $A$’s amount realized;
2. $A$’s gain or loss realized;
3. $A$’s gain or loss recognized and the character thereof;
4. $A$’s basis in the $X$ stock received;
5. $A$’s holding period for the $X$ stock received (tacked or not?);
6. $X$’s basis in the property received;
7. $X$’s holding period for the property received (tacked or not?); and
8. The amount and character of $X$’s gain if $X$ immediately sells the property for $100.

(1) $A$ transfers the property to $X$ in exchange for all of $X$’s stock. Shortly thereafter, $A$ sells half of his $X$ stock to $B$ for $50 and either

(a) The stock sale is a “separate” event from the prior incorporation transaction; or

(b) the stock sale is an integral part of the incorporation plan.

(2) $A$ sells a half interest in the property to $B$ for $50. $A$ and $B$ then jointly transfer their property interests to $X$ in exchange for $X$’s stock.

(3) $A$ and $B$ jointly organize $X$. $A$ transfers his property to $X$ in exchange for $50 in cash and half of $X$’s stock. $B$ transfers $50 in cash to $X$ in exchange for the other half of $X$’s stock.

(4) Same as (3) above, except that $A$ leased the real property to $X$ for 30 years, receiving $50 in cash and half of $X$’s stock.
(5) Same as (3) above, except that $X$ also issued $5 of its authorized nonvoting preferred stock to pay the lawyer’s bill for legal services in organizing $X$.

(6) What would result if the property in (3) above consisted of two parcels, one with a basis of $40 and a value of $80 and the other with a basis of $30 and a value of $20? Assume $A$ receives 50 shares of $X$ stock (which is a 50% interest in $X$).

(7) $A$ borrows $50 from $L$ (nonrecourse) on the security of the property. Shortly thereafter, $A$ transfers the property to $X$ (subject to this debt) in exchange for half of $X$’s stock, and $B$ transfers $50 cash to $X$ in exchange for the other half of $X$’s stock. $X$ subsequently uses the $50 cash to repay $L$. Assume the property has a $50 basis.

*Alternative:* Assume the property has a $40 basis.

*Alternative:* $A$ also contributes $A$’s note for $10 to $X$.

(8) $A$ transfers $100 in uncollected customer accounts receivable (from $A$’s cash-basis service business) to $X$ in exchange for half of $X$’s common stock plus $X$’s assumption of $50 of accounts payable that $A$ could have deducted upon payment in cash). $B$ transfers $50 in cash to $X$ in exchange for the other half of $X$’s stock. $X$ uses this cash to pay off the assumed accounts payable. *Variation:* $A$ transfers the receivables but not the payables to $X$ (and vice versa).
PROBLEM SET #3

Assumptions: The stock of \( X \) is owned equally by two shareholders: \( Y \) (a corporation with basis of $100 in its \( X \) stock) and \( A \) (an individual with stock basis of $40). \( X \) and \( Y \) use the accrual method, \( A \) uses the cash method, and all use a calendar taxable year. Use a 34 percent corporate tax rate in this problem. During the current year, \( X \) accrued income and expenses as follows:

\[
\begin{array}{ll}
\text{Gross income from business} & $500 \\
\text{Dividends on AT&T stock} & 100 \\
\text{Interest on municipal bonds} & 100 \\
\text{Capital gain} & 100 \\
\hline
\text{Total} & $800 \\
\text{Deductible business expenses} & $430 \\
\text{Noncapital expenses not deductible under § 162(e)} & 90 \\
\text{Capital losses} & 146 \\
\hline
\text{Total} & $666 \\
\hline
\text{Net} & $134
\end{array}
\]

(1) On December 24 of the preceding year, \( Y \) and \( A \) incorporated \( X \) and capitalized \( X \) with cash of $100 each. On December 31 of the same year, \( Y \) and \( A \) received a distribution for \( X \) of $5 each, before \( X \) had earned any income. In addition, \( Y \) and \( A \) received distributions of $5 each in the current year. Which distributions should be taxable income to \( Y \) and \( A \)? Why? What does E&P have to do with this?

Alternative: \( A \) just bought the \( X \) shares on December 31 of the current year from another shareholder for FMV of $145, before the declaration and payment of a $5 distribution on December 31 of the current year. Should the distribution be taxable income to \( A \)? Why?
(2) On January 2 of the current taxable year, \( X \) distributes $100 in cash to \( Y \) and $100 in cash to \( A \). As of the end of the preceding taxable year, \( X \)’s accumulated E&P was zero. What are the tax consequences of this distribution to \( X, Y, \) and \( A \)?

Variation: If \( A \) did not own the stock all year but rather \( A \)’s shares were owned by a different shareholder every quarter and $50 in total was distributed ratably to all shareholders quarterly, how much dividend would \( Y \) and the holders of \( A \)’s shares receive?

(3) How would you answer to (2) above change if, in the immediately preceding year, \( X \) had been profitable and had charged (decreased) its financial accounting retained earnings account with, and reduced its E&P by, a stock dividend to each of \( Y \) and \( A \) that was worth $50 but not includible in gross income under §305(a) (after which \( X \) had zero accumulated E&P)?

(4) How would your answer to (2) above change if, on December 1 of the current year (the declaration date), \( X \)’s board of directors voted to pay the $200 distributed by mailing the checks on December 31 of the current taxable year (the payment date, selection of which is a practice generally used only by widely held corporations) to shareholders of record on December 15 of the current taxable year (the record date), such checks actually being received by \( Y \) and \( A \) in the mail on January 2 of the next year? Assume that \( Y \) and \( A \) are the public and that they are the only two shareholders (as in the basic facts).

(5) Who recognizes how much income and of what kind in (4) above if \( A \) sells his \( X \) stock to \( C \) for $540 [assume FMV] on December 10 of the current taxable year?

Alternative: What if \( Y \) sells its stock to \( Z \) on December 29 for $440?

(6) Suppose in (2) above that \( X \) had an accumulated deficit of $100 in its E&P account as of December 31 of the preceding taxable year.

(7) Suppose in (2) above that \( X \)’s accumulated E&P, as of December 31 of the prior taxable year, was $100, but \( X \) broke even in the current taxable year. Would the result be different if the $200 distributions were distributed in equal quarterly installments?

(8) Suppose in (7) above that \( X \) had current losses of $100 and the distributions to \( Y \) and \( A \) occurred in the current taxable year on January 1. On December 31. On July 1.
PROBLEM SET #3A

Assumptions: A owns half the common stock of X with an adjusted basis of $40, and Y owns the other half of the X common stock with an adjusted basis of $100. X’s current E&P from current-year income and expenses/losses (before consideration of the events described in (1) through (5) below) is $94, and X has no accumulated E&P. X uses the accrual method, all taxpayers are on the calendar year, and §1059 does not apply. Assume that the corporate tax rate is 34 percent.

(1) X distributes, in kind, its long-held AT&T stock with an adjusted basis of $40 and FMV of $100 to Y; X also distributes AT&T stock with an adjusted basis of $60 and FMV of $100 to A. What are the results to A, Y, and X?

   Alternative: The basis of the stock distributed to A is $120.

(2) Suppose that the distributed properties were §1245 assets that would have adjusted bases of $50 and $70, rather than $40 and $60, had they been depreciated as required by §312(k), and that the properties were distributed jointly to A and Y.

(3) Suppose that each block of AT&T stock in (1) above was subject to a $50 nonrecourse liability or, alternatively, a $120 nonrecourse liability.

(4) X leases some rental property that it owns to T, and T agrees to pay the annual rent of $60 directly to X’s shareholders, A and Y.

(5) X sells an apartment building that it owns to A and Y jointly for $100. The property has a basis of $100 and a value of $200.

   Alternative: A and Y paid $300 for the property.
PROBLEM SET #4

Assumptions: X is owned entirely by two individuals, A and B (who are unrelated unless otherwise stated). A owns 60 shares of X common stock (bought in one transaction for $600). B owns 40 shares of X common stock (with a basis of $30 per share). The stock’s FMV is $20 per share. X’s E&P is $500; X uses the accrual method of accounting. What are the results to the parties from the alternative transactions in (1) through (9) below (i.e., the amount and character of shareholder income or loss and the E&P impact)?

(1) A sells 10 X shares to B for $200. Alternatively, what should A do if 50 of A’s shares have a $10 per share basis and the other 10 shares have a $20 per share basis?

(2) A sells 30 shares back to X for $600.

(3) A sells 20 shares back to X for $400.

(4) What would result to B if X redeems 10 of B’s shares for $200? What is the minimum number of shares that B must have redeemed to ensure sale or exchange treatment?

(5) A sells 10 shares back to X for $200.

Alternative: A is a corporation.

(6) A sells 30 shares back to X for $600. Shortly thereafter, B sells 10 shares back to X for $200 in an exchange that had been agreed to in the preceding year. What would result to B? What would result to A if B sold 11 shares, rather than 10?

(7) In one transaction, A sells 20 X shares to B for $400 and 10 shares back to X for $200.

(8) A sells 30 shares back to X for $600. What would result if A and B are “related” in the following alternative ways?

(a) B is A’s brother, and their father is living.

(b) B is A’s equal partner in a two-person partnership.

Alternative: The partnership owns an option to purchase B’s shares in X.
(c) \( B \) is a corporation in which \( A \) owns one half of the stock.

*Alternatives:*

(i) \( A \) owns 45 percent of the stock.

(ii) \( A \) owns 45 percent of the stock and \( C \), \( A \)'s father, owns 5 percent of the outstanding \( B \) shares.

(iii) \( A \) owns 45 percent of the stock and \( B \) is an S corporation.

(d) \( A \) is a trust of which \( B \) is the sole income beneficiary for \( B \)'s life.
Query: Would \( A \)'s shares be attributed to \( B \)?

(e) \( A \) is an estate in which \( B \) has a “minor” undistributed interest.
*Alternative:* If \( B \) was the sole income beneficiary and was age 99, would \( A \)'s \( X \) shares be attributed to \( B \)?

(f) \( A \) is a decedent’s estate of which \( B \) is the executor (but otherwise has no interest).

(g) \( A \) has an option to buy \( B \)'s shares.
*Alternative:* \( B \) has an option to buy 21 shares from \( X \).

(9) If \( A \) and \( B \) each own 50 shares, rather than 60 shares and 40 shares, respectively, how many shares will \( A \) and \( B \) each own by attribution?
PROBLEM SET #5

(1) \(A\) owns 60 of the 100 outstanding \(X\) shares, with a $600 adjusted basis. \(B\) owns the other 40 shares. If \(A\) wants to sell a few shares and avoid distribution treatment, will \(A\) want to sell to \(B\) or to \(X\)? How will \(B\) feel about \(A\)’s choice?

(2) \(A\) owns 60 shares ($10 per share basis) and \(B\) owns 40 shares ($30 per share basis) of \(X\), representing all of \(X\)’s outstanding shares. \(A\) and \(B\) are unrelated unless otherwise stated. \(X\) has $500 E&P. What are the results to \(A\), \(B\), and \(X\) from the following alternative transactions?

(a) \(A\) sells all of \(A\)’s \(X\) stock to \(B\) for $200 in cash and $1,000 in notes payable over a 10-year period.

(b) \(X\) redeems (but does not cancel) all of \(A\)’s stock on the same terms as (a) above. Could \(X\)’s later issuance of the treasury shares of stock redeemed from \(A\) affect \(A\)’s installment sale treatment? What if \(A\) stayed on as \(X\)’s president with compensation tied to \(X\)’s profits?

(c) Suppose in (a) and (b) above that \(A\)’s stock is sold or redeemed at fair market value for $200 cash plus an $1,000 note (face and FMV). \(A\) is \(B\)’s father. After the sale, \(A\) moves to Florida and has no connection with \(X\) whatsoever. Alternatively, what if \(A\) stays in town and "consults" with \(X\), maintaining the same office at \(X\) and receiving $2,000 per month plus medical and life insurance benefits? What if \(B\) hates \(A\), and the feeling is reciprocated?

(d) Suppose in (a) above that \(X\) pays off \(B\)’s note as payments fall due. Is this a smart way to do an LBO? What if \(B\) is a corporation that recently acquired its \(X\) stock?

(e) Suppose in (b) above that \(B\) had the option to buy \(A\)’s \(X\) stock at $20 per share, but instead allowed \(X\) to make the purchase.

(f) Suppose in (a) above that after the contract had been signed, but before closing, \(B\) assigned the agreement to \(X\), \(B\) was released (with the consent of \(A\)), and \(X\) completed the transaction. What if \(B\) is a corporation that recently acquired its 40 percent by a market tender?
(g)  \( A \) sells 10 of \( A \)'s shares to \( B \) for $200 in cash and, as part of the same transaction," sells the balance of the shares to \( X \) for $1,000 in notes payable over 10 years. Will \( A \) do this if it is a corporation?

(h)  Suppose in (g) above that instead of paying for \( A \)'s stock with the notes, \( X \) distributed land worth $1,000 (basis $200) to \( A \) in exchange for the 50 shares of \( X \) stock.

(3)  \( X \) is in the fast-food business and has two shareholders, \( A \) and \( B \). \( X \) owns 10 stores that it leases to its franchisees who operate them. \( X \) owns 10 other stores that it operates itself. This arrangement has continued for at least 5 years. \( X \) proposes to sell the leased stores to the franchisees and to distribute the proceeds to \( A \) and \( B \) in a pro rata redemption. \( X \) will not cut any employees as a result of the sale and distribution. How will \( A \) and \( B \) report the redemption? What if \( A \) and \( B \) did not surrender any shares?
PROBLEM SET #6

Assumptions: X, Y, and Z, although in different businesses, have the following identical characteristics: (1) cash of $100; (2) other assets with a basis of $100 and FMV of $300; (3) no liabilities; (4) E&P of $100; and (5) capital stock outstanding of 100 shares common. Each share of stock of each corporation is worth $4.

In each of the following situations, determine the tax effects on the shareholders and the corporations, including stock and asset basis.

(1) A owns all of the outstanding X stock with a basis of $200. A owns 45 shares of the 100 outstanding shares of Y with a basis of $90. B owns 55 Y shares with a basis of $110. A sells all of the X stock to Y for $400 cash and notes.

Alternatives:

(a) A and B each owns 50 shares of Y stock with a basis of $100 each.

(b) A owns 51 percent of Y stock with a basis of $100.

(2) A owns all of the X stock with a basis of $200. A's three sons own all of the Y stock equally. A sells one half of the X stock to Y for $200.

Alternative: A sells all of the X stock to Y for $400 cash and notes and X has $200 E&P.

(3) X owns all of the Y stock with a basis of $200. Y owns all of the Z stock with a basis of $100. Y sells its Z stock to X for $400.

(4) X owns all of the Y stock with a basis of $100. A owns all of the X stock with a basis of $200. A sells half of the X stock to Y for $200.

Alternatives:

(a) Would the result necessarily change if X owns only pure preferred stock of Y?

(b) What if A owns only two of X’s 100 outstanding shares and sells one to Y for $4?

(c) What if A sells 50 shares of X to Z, a newly formed, wholly owned subsidiary of Y?
(d) Instead of $200 in cash, what if A receives from Y pure preferred Y stock with FMV of $200?

(5) A owns all of the X stock with a basis of $200. A buys all of the stock of Y for $50. Later, when the stock of Y is worth $250, A pledges the Y stock as collateral for a $200 loan. A then transfers the Y stock to X in exchange for 10 more shares of X stock worth $50. X assumes the $200 debt.

Alternative: A has just bought all the Y stock in a public tender offer for $50 cash plus $200 in notes.
PROBLEM SET #7

Assumptions: X owns a rental building (its only asset) with a gross FMV of $1,000, subject to a nonrecourse mortgage of $400. X’s adjusted basis for this building is $300. A owns all of X’s stock, with a basis of $100. X has $200 of E&P. X is on the accrual method of accounting and reports on the calendar year. Assume that the corporate tax payable by X on $700 gain is $250 and on $600 gain is $200.

For each of the following problems (1) through (7) below, determine the amounts and character of realized and recognized gain or loss to all parties, the time of recognition, and the transferee's basis in any property received in kind.

(1) X sells the building, subject to the mortgage, to B in the current year for $600 in cash. X then liquidates, distributing to A all of the cash remaining after paying its taxes, in cancellation of A’s stock in the current year.

Alternatives:

(a) B pays $300 in cash and gives A a $300 (face and FMV) note payable in equal annual installments plus interest over 5 years. In liquidation, X distributes the net cash and the note to A in the year of sale.

(b) X’s plan of liquidation provides that X will stay in existence for five years for the sole purpose of collecting the note and paying the net amount over to A annually.

(2) X adopts a plan of complete liquidation and distributes the property to A "in kind" pursuant to this plan. A then sells the property to B for $600 in cash, with B taking subject to the $400 mortgage.

(3) A sells the stock in X to B for $600 in cash. B promptly liquidates X to get direct ownership of, and a $1,000 basis in, the building. Was B wise to pay $600?

(4) Suppose that in (1) above, the gross FMV of X’s property is actually $1,000, but to induce X to sell, B also gives X a "contingent" right to receive from B an additional $500 in 5 years if B earns profits from the building in excess of any profits it historically had earned.

(5) Suppose that in (2) above, A’s basis for one half of the X stock is $100 and for the other half is $400.

(6) Suppose that in (2) above, the basis for X’s property is $1,500 instead of $300? Would your answer change if A had organized X two years ago by contributing the building then
worth $1,500 with a $1,500 basis in exchange for all the stock and A's stock basis is now $1,500 (assume no debt is involved)?

(7) Suppose that in (2) above, the value of X’s property is $350 and X liquidates with A taking subject to the $400 mortgage. A then sells to B subject to the mortgage and for no additional consideration.
PROBLEM SET #8

Assumptions: Y owns 100 percent of the stock of X (all common) with a basis of $100. X owns a rental building (its only asset) with a gross FMV of $1,000, subject to a nonrecourse mortgage of $400. X’s adjusted basis in this building is $300. X has $200 of E&P. X is on the accrual method of accounting and reports on the calendar year. X and Y do not report on a consolidated basis.

For each of the following problems, determine the character and amounts of realized and recognized gain or loss to all parties, the time of recognition, the transferee's basis in any property received in kind, and any E&P impact.

(1) X sells its building to Z for $600 cash, subject to the debt, pays its tax, and liquidates.

(2) X distributes the building to Y in complete liquidation and Y sells the building to Z for $600 cash, subject to the debt.

(3) Same as (2) above, except X’s debt is $1,100, not $400.

(4) Same as (2) above, except the $400 debt is owed to Y in the form of a $400 bond of X (that Y purchased for $300 in the market).

(5) Same as (2) above, except Y owes money to X.

(6) Same as (2) above, except there is also outstanding a class of X’s pure preferred stock, which represents half of X’s equity value and which is entitled to half of X’s net asset value upon liquidation, but of which Y owns none. [Don't do the numbers; just state what happens.]

(7) Same as (6) above, except that instead of liquidating, X merges into Y. Alternative: Y merges into X.