

*...vous savez aussi tout comme
moi quel est le grand but de tous
gouvernements de la terre —
Soumission et argent. On cherche,
comme on dit, à plumer la poule
sans la faire crier...*

Turgot

Code and Regs:

- §§1(h)(11)(D)(ii); 61(a)(7); 243(a)-(c); 246(c)(1) and (4); 246A; 301(a)-(f); 311; 312(a)-(c), (f), (k)(1) and (3), (n)(5); 316; 317(a); 1059(a), (b), (c)(1), (2) and (4), (d)(6), (e)(2); 1368(b)-(d), (e)(1)(A) and (C), and (e)(3).
- §§1.312-3; 1.316-1 and -2(b)

1. Individual A forms C Corp by contributing \$100 for all of its common stock. During the year, C Corp has \$100 of taxable income. It also earned \$10 of tax-exempt interest; earned \$50 of dividend income of which \$25 was excluded under §243(a)(1); received \$100 of life insurance proceeds exempt under §101(j)(1); recognized \$20 of capital losses that it could not deduct under §1211(a); and paid \$21 of corporate taxes. What are C Corp's E&Ps?
2. Same facts as problem 1. C Corp borrows \$300 and distributes all of the borrowed proceeds to A. What are the tax consequences to A?
3. Review the rulings in Situations 3 and 4 in Rev. Rul. 74-164 and read Reg. §1.316-2(a)-(c). Is the approach of the ruling consistent with the regulations?
4. Individual A owns two shares of C Corp, one with a basis of \$30 and the other with a basis of \$200. These are all of the outstanding shares of C Corp.) C Corp has E&Ps of \$150 and makes a distribution of \$120 per share to A. What are the probable tax consequences to A? *See* Prop. Reg. §1.031-2, withdrawn in 2019.
5. Explain the tax policy goal of §246(c)(1) and (c)(4)?
6. On Feb. 1, B Corp purchased 100 shares (5%) of C Corp stock for \$20 per share. On Sept. 1, C Corp pays a distribution of \$8 per share. What are the tax consequences to B Corp, assuming that all of the distribution is a dividend? Does the FMV of the shares at the time of the distribution potentially matter? *See* §1059(c)(4).

7. Same facts as previous question, except B Corp purchased the shares for \$3 per share.
8. Explain the tax policy goal of §1059(d)(6).
9. On January 1, C Corp purchases 1,000 shares of Costco stock for \$300,000 (\$300 per share). It finances 60% of the purchase price (\$180,000) with debt borrowed from IBank. The prior ex-dividend date was on Nov. 1. On Mar. 1, Costco pays a dividend of \$5 per share. (Assume that Mar. 1 is also the ex date.) What are the tax consequences to C Corp? §246A(d)(4) and 246A(d)(2).
10. Read §246A(d)(3)(A). Is there another policy approach to allocate interest expense on a corporation's portfolio stock?
11. C Corp distributes appreciated property (AB, \$50,000; FMV, \$100,000) to its sole individual shareholder, A. Prior to the distribution, C Corp has \$1,000 of E&Ps. What are the tax consequences to C Corp (E&Ps, G/L recognized) and to A? What other information would be useful?
12. Same facts as prior problem, except the property's AB is \$100,000 and its FMV is \$50,000.
13. Same facts as prior problem, except that the property's AB is \$50,000, its FMV is \$100,000, and the property is subject to a liability of \$125,000. §§311(b)(2), 312(c), 336(b), and Reg. §1.312-3.
14. Read *Aspro v. CIR*. What's the dispute and the holding?
15. Read *TSN Liquidating Corp*. What's the tax goal of a dividend strip transaction? What are some potential roadblocks? Statutory? Common law?
16. Individual A forms X Corp, a C corporation, with a contribution of \$1,000. After 5 years, A decides to convert X Corp into an S corporation. While it was a C corporation, X Corp had accumulated E&Ps of \$10,000. Assume A's basis in X Corp is \$5,000. In year 6 and 7, X Corp earns \$2,000 each year. Halfway through year 7, X Corp distributes \$6,000 to A. What are tax consequences to A and X Corp?
17. Same facts as previous problem, except that X Corp has a \$3,000 net loss for year 7. What are the tax consequences to A and X Corp? See §1368(e)(1)(C) and (d) (flush language).