

Code and Regs:

- §§83(a) and (h); 351(a), (b), (d), and (g); 358(a), (d) and (h); 362(a) and (e)(2); 368(c); 1001(a) and (c); 1012; 1032; 1223(1) and (2)
- 1.351-1(a)(1)(i), (ii), and (a)(2), Ex. 3

Assume that all stock is common stock unless otherwise noted, and that the installment sales rules don't apply.

Transfers of Property to Controlled Corporations

1. Individuals A, B, & C organize a corporation (C Corp) to which A transfers inventory worth \$10,000 with a basis of \$5,000 in exchange for 100 shares of stock. B transfers depreciable business equipment purchased 2 years ago worth \$10,000 with a basis of \$5,000 in exchange for 100 shares of stock, and C transfers \$10,000 cash in exchange for 100 shares of stock.
 - (a) How much gain or loss does A, B, or C realize and recognize?
 - (b) How much gain or loss does C Corp realize and recognize? What if C Corp uses its shares that it had repurchased for \$1/share?
 - (c) What's A, B, and C's basis and holding period in the shares received?
 - (d) What's C Corp's basis and holding period in the property received?
2. Same as 1, except C did not transfer cash to the corporation. Instead, he received 100 shares of stock in exchange for \$10,000 worth of services to be performed for the corporation.
 - (a) How much gain or loss does A, B, or C realize and recognize?
 - (b) How much gain or loss does C Corp realize and recognize?
 - (c) What's A, B, and C's basis and holding period in the shares received?
 - (d) What's C Corp's basis and holding period in the property received?
3. Same as 1, except C receives 100 shares of stock in exchange for \$5,000 cash and \$5,000 worth of services to be performed for the corporation. Reg. §1.351-1(a)(2), Ex. 3.
4. Same as 1, except C receives 100 shares of stock in exchange for \$10 cash and \$9,990 worth of services to be performed for the corporation. See Rev. Proc. 77-37, §3.07 and *Kamborian's Estate v. CIR*.

5. Same as 1, except C had a contract with D that as soon as the corporation was formed and he received 100 shares of stock, C would sell the 100 shares to D for \$10,000. What issue does this raise?
6. Same as 1, except that B's equipment has a basis of \$15,000 instead of \$5,000.
7. Same as 1, except that A transfers land held 5 years for investment with a basis of \$4,000 and a FMV of \$8,000 and \$2,000 cash for 100 shares of stock. What are two ways to allocate the basis and holding period to the shares received? *See* Rev. Rul. 68-55 and Rev. Rul. 85-164.

Boot

8. Same as 1, except B receives from the corporation in exchange for his equipment 70 shares of stock worth \$7,000, and 5-year term notes worth \$3,000.
9. Same as 1, except B receives from the corporation in exchange for his equipment 30 shares of stock worth \$3,000 and 5-year term notes worth \$7,000.
10. Same as 1, except B transfers two pieces of equipment, E1 and E2, in exchange for 70 shares worth \$7,000 and \$3,000 cash. Both E1 and E2 have a basis of \$5,000, and E1 has a FMV of \$7,000 and E2 has a FMV of \$3,000. *See* Rev. Rul. 68-55.
11. Same as 1, except that B receives 20 shares of C Corp preferred stock worth \$2,000 whose dividend varies by the price of a bushel of corn and 80 shares of common stock.
12. Describe the tax gambit addressed in GLAM 2020-005.

Liabilities

13. Same as 1, except B's equipment is subject to a \$3,000 mortgage. B receives from the corporation in exchange for his equipment 70 shares of stock worth \$7,000, and the corporation assumes the mortgage.
14. Same as 1, except B's equipment is subject to a \$7,000 mortgage. B receives from the corporation in exchange for his equipment 30 shares of stock worth \$3,000, and the corporation assumes the mortgage.
15. Same as 1, except B's equipment is subject to a \$3,000 mortgage and C Corp also assumes \$4,000 of B's accounts payable that were incurred in B's ordinary course of business. B is a cash method taxpayer. B receives from the corporation in exchange for his equipment 30 shares of stock worth \$3,000, and the corporation assumes the mortgage and accounts payable.