> Corporate tax is all about basis, baby.
>
> — Anonymous

Code and Regs:

- §§83(a) and (h); 351(a), (b), (d), and (g); 357(a), (b), and (c); 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

Unless otherwise noted, assume that all stock is common stock and 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 from shareholders for $1/share?
   (c) What are A, B, and C's basis and holding period in the shares received?
   (d) What are 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 are A, B, and C's basis and holding period in the shares received?
   (d) What are 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.

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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.

16. Challenge question. B transfers two assets to X Corporation: (1) Blackacre, with a fair market value of $700 and a basis of $250, subject to a mortgage debt of $350, and (2) publicly traded stock with a fair market value of $300 and a basis of $300, subject to a lien debt of $150. In exchange, B receives all of the common stock of X Corporation (FMV $300), a promissory note for $200, and X Corporation assumes the $500 of debt encumbering the transferred assets. *See* Rev. Ruls. 60-302 and 68-55 and §§351(b) and 357(c).

Bonus Question: Installment Sales Rules

Note, this material will not be tested on the exam. I'm covering it solely to give you some exposure as it comes up frequently, especially in reorganizations (M&A).

17. Same as Question 8 above, except that B transfers land (FMV = $10,000; AB = $5,000) and receives 80 shares of stock worth $8,000 and a C Corp note with a face value of $2,000. The note is payable in 3 years, and assume that the note pays adequate interest.

    (a) What's B's basis in the stock? Prop. Reg. §453-1(f)(1)(iii), (f)(3)(i).

    (b) What's B's basis in the note?

    (c) What's C Corp's initial basis in the land?

    (d) What's C Corp's basis in the land when the note is paid in year 3? Prop. Reg. §453-1(f)(1)(ii).