

Corporate Tax Problem Set 6: Related Party Redemptions (§304)

B Corporation and C Corporation each have 100 shares of common stock outstanding. Ferris owns 80 shares of B Corp stock (with a total basis of \$40,000, or \$500 per share) and 60 shares of C Corp stock (with a total basis of \$9,000, or \$150 per share.)

The remaining B Corp and C Corp shares are owned by one person who isn't related to Ferris.

B Corp has no current or accumulated E&Ps. C Corp has no current but \$5,000 of accumulated E&Ps.

What are the tax consequences to the various parties in the following alternative transactions:

1. Ferris sells 20 of his C Corp shares to B Corp for \$4,000. Ferris's basis in the C Corp shares is \$3,000.
2. Ferris sells all of his C Corp shares to B Corp for \$12,000.
3. Same as (1) above, except that Ferris receives \$3,000 and one share of B Corp (FMV of \$1,000) in exchange for his 20 C Corp shares.
4. Same as (1) above, except that Ferris receives one share of B Corp (FMV of \$1,000) and B Corp takes the 20 C Corp shares subject to a \$3,000 liability that Ferris incurred to buy the 20 shares of C Corp.