**Corporate Taxation**

**Spring 2021**

**Problem Set 6**

**Bail Corporation and Out Corporation each have 100 shares of common stock outstanding. Claude owns 80 shares of Bail stock (with a basis of $40,000, or $500 per share) and 60 shares of Out stock (with a basis of $9,000, or $150 per share.)**

**The remaining Bail and Out shares are owned by one individual who is not related to Claude.**

**Bail has no current or accumulated earnings and profits. Out has no current and $5,000 of accumulated earnings and profits.**

**Determine the tax consequences to the various parties in each of the following alternative transactions:**

**(a) Claude sells 20 of his Out shares, in which he has a $3,000 adjusted basis, to Bail for $4,000.**

**(b) Claude sells all his Out shares to Bail for $12,000.**

**(c) Same as (a), above, except that Claude receives $3,000 and one share of Bail stock (fair market value—$1,000) for his 20 Out shares.**

**(d) Same as (a), above, except that Claude receives one share of Bail stock (fair market value—$1,000) and Bail takes the 20 Out shares subject to a $3,000 liability that Claude incurred to buy the 20 shares of Out stock.**