**Homework for Chapter 8B.**

Mecklenburg owns all of the stock of Charlotte Corporation. Both corporations have been active in business for 20 years. Mecklenburg distributes all of its Charlotte stock to the Mecklenburg stockholders. Those stockholders do not surrender any of their Mecklenburg stock. This is a:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | spin-off | **b.** | split-off | **c.** | split-up |  |  |  |

Mecklenburg Corporation organized Charlotte Corporation and Pineville Corporation, and   
invested its assets in these two subsidiaries. Mecklenburg distributed all of its Charlotte stock and Pineville Corporation stock to the Mecklenburg stockholders. Those stockholders surrendered their Mecklenburg stock. This was a:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | spin-off | **b.** | split-off | **c.** | split-up |  |  |  |

**Jon** owns Local Corporation with the following balance sheet.   
Jon organized the Local Corporation and it has always been a C corporation.

|  |  |  |  |
| --- | --- | --- | --- |
| **Local Corp. Balance Sheet as of 12-31-13** |  | Book Value | Market Value |
| Cash |  | $ 500,000 | $ 500,000 |
| Receivables |  | 100,000 | 100,000 |
| Fixed Assets |  | 400,000 | 1,400,000 |
| Total Assets |  | $ 1,000,000 | $ 2,000,000 |
| Common Stock |  |  |  |
| Par value per share | $10 |  |  |
| Number of shares issued to Jon | 10,000 |  |  |
| Issue Price per share | $30 |  |  |
| Total Proceeds from stock issue to Jon | $ 300,000 |  |  |
| Common Stock |  | 100,000 |  |
| Additional Paid in Capital |  | 200,000 |  |
| Retained Earnings (also E & P) |  | 700,000 |  |
| Total Owner Equity of Jon |  | $ 1,000,000 | $ 2,000,000 |

Huge Corporation acquires Jon’s stock on 12-31-13 by paying cash of $2,000,000. Local will be   
operated as a subsidiary. No special election under Section 338 is made related to this acquisition.   
After the acquisition, what is the basis of the fixed assets to Local Corporation?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $400,000 | **b.** | $1,900,000 | **c.** | none of these |  |  |

[§368(a)(1)] In a type B reorganization, as defined by the Internal Revenue Code, the

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **I.** | Stock of the target corporation is acquired solely for the voting stock of either the acquiring corporation or its parent. | | | | | | |
| **II.** | Acquiring corporation must have control of the target corporation immediately after the acquisition. | | | | | | |
| **a.** | I only. | | **b.** | II only. | **c.** | Both I and II | **d.** | Neither I nor II | |  |

[§368(a)(1)] Which one of the following is not a corporate reorganization as defined in the   
Internal Revenue Code?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Stock redemption. | **b.** | Recapitalization |  |
| **c.** | Mere change in identity. | **d.** | Statutory merger. |

[§368(a)(1)] Jaxson Corp. has 200,000 shares of voting common stock issued and outstanding.   
King Corp. has decided to acquire 90 percent of Jaxson's voting common stock   
solely in exchange for 50 percent of its voting common stock and retain Jaxson as a subsidiary   
after the transac­tion. Which of these statements is true?

|  |  |  |
| --- | --- | --- |
| **a.** | King must acquire 100% of Jaxson stock for the transaction to be a tax-free reorganization. |  |
| **b.** | The transaction will qualify as a tax-free reorganization. |
| **c.** | King must issue at least 60% of its voting common stock for the transaction to qualify as a  tax-free reorganization. |
| **d.** | Jaxson must surrender assets for the transaction to qualify as a tax-free reorganization. |

[§354(a)(1), §1.361-1] Corporations A and B combine in a qualifying reorganization,   
and form Corporation C, the only sur­viving corporation. This reorganization is tax-free to the

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Stockholders | Corporation |  | Stockholders | Corporation |  |  |
| a. | Yes | Yes | c. | No | Yes |  |
| b. | Yes | No | d. | No | No |  |

[§368(a)(1)] In a corporate reorganization, Gow exchanged 500 shares of Lad Corp.

com­mon stock that he had bought in January 2000 at a **cost of $5,000** for 100 shares of Rook Corp.

common stock hav­ing a **fair market value of $6,000**. Gow's recognized gain on this exchange was:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $1,000 long‑term capital gain. | **b.** | $1,000 short‑term capital gain. |  |
| **c.** | $1,000 ordinary income | **d.** | $0. |

[Sec. 354(a), 358] In a plan of corporate reorganization adopted in 2014, Emil Gow exchanged   
2,000 shares of Bly Corp. common stock for 3,600 shares of Rolf Corporation Common   
stock. Gow had paid $75,000 for the Bly stock.   
The fair market value of the Rolf stock was $86,000 on the date of the exchange.   
As a result of this exchange, how much was Gow's recognized gain and his basis in the Rolf stock?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Recognized gain** | **Basis** |  |  |
| **a.** | $11,000 | $86,000 |
| **b.** | $11,000 | $75,000 |
| **c.** | $0 | $86,000 |
| **d.** | $0 | $75,000 |

[§351] To qualify for tax-free incorporation, a sole proprietor must be in control of the transferee corporation immediately after the exchange of the proprietorship's assets for the corporation's stock. "Control" for this purpose means ownership of stock amounting to at least

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 80.00% | **b.** | 66.67% | **c.** | 51.00% | **d.** | 50.00% |  |

With regard to corporate reorganizations, which one of the following statements is correct?

|  |  |  |
| --- | --- | --- |
| **a.** | The reorganization provisions can not be used to provide tax-free treatment for corporate |  |
|  | transactions. |
| **b.** | Securities in corporations not parties to a reorganization are always "boot." |
| **c.** | A "party to the reorganization" does not include the consolidated company. |
| **d.** | A mere change in identity, form, or place of organization of one corporation does not qualify as a reorganization. |

[§354(a)(1] In a corporate reorganization, Myra Eber exchanged 1,000 shares of   
Faro Corp. common stock that she had purchased for $75,000, for 1,800 shares of Judd   
Corp. common stock having a FMV of $86,000.   
As a result of this exchange, Eber's recognized gain and her basis in the Judd stock should be

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Recognized gain** | **Basis** |  | **Recognized gain** | **Basis** |  |  |
| **a.** | $11,000 | $86,000 | **c.** | $0 | $86,000 |  |
| **b.** | $11,000 | $75,000 | **d.** | $0 | $75,000 |  |

Ace Corp. and Bate Corp. combine in a qualifying reorganization and   
form Carr Corp., the only surviving corporation. This reorganization is tax-­free to the

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Stockholders** | **Corporation** |  | **Stockholders** | **Corporation** |  |  |
| **a.** | Yes | Yes | **c.** | No | Yes |  |
| **b.** | Yes | No | **d.** | No | No |  |

**Big Corp (Big) acquires all of Jan’s stock in Jan Corp (JCorp) Type B Reorganization**

|  |  |  |
| --- | --- | --- |
| **Jan Corporation ("JCorp" )** | **Book Value** | **FMV** |
| Current Assets | $ 600,000 | $ 600,000 |
| Fixed Assets | 400,000 | 1,400,000 |
| **Total Assets** | **$ 1,000,000** | **$ 2,000,000** |
| Debt | $ -0- |  |
| Common Stock – Jan’s investment | 200,000 |  |
| Retained Earnings | 800,000 |  |
| **Owner Equity** | **$ 1,000,000** | **$ 2,000,000** |
| FMV of Jan's stock in JCorp |  | $ 2,000,000 |
| Jan’s total basis in all outstanding JCorp Stock: $ 200,000. | | |

Big Corporation issues Big Corporation common stock worth $2,000,000 to Jan in exchange for all   
of her Jan Corporation stock. This transaction qualifies as a type B reorganization under section 368.

Big Corporation is referred to as “Big” and Jan Corporation is referred to as “JCorp.”

Refer to the information above for the combination of JCorp and Big Corporation. How much gain does Jan recognize on the exchange of her JCorp stock for the Big stock? [Sec. 354(a)(1)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,800,000 | **d.** | Other |  |

Refer to the information above for the combination of J Corporation and Big Corporation.   
What is Jan’s basis in Big stock that she received in exchange for her JCorp stock? [Sec. 358(a)(1)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000 | **d.** | Other |  |

Refer to the information above for the combination of J Corporation and Big Corporation.   
How much gain does Big recognize on the exchange of Big stock for the JCorp stock? [Sec. 1032(a)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,900,000 | **d.** | $2,000,000 |  |

Refer to the information above for the combination of J Corporation and Big Corporation.   
What is Big’s basis in the JCorp stock? [Sec. 362(b)] See Rev. Proc. 81-70 (underlined part) on  
web after homework file.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Zero | **b.** | $200,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

Refer to the information above for the combination of J Corporation and Big Corporation.   
How much gain is recognized by JCorp as a result of the exchange of Big stock for the JCorp   
stock previously owned by Jan?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000 | **d.** | Zero |  |

Refer to the information above for the combination of J Corporation and Big Corporation.   
After the exchange of Big stock for Jan’s JCorp stock, Big owns all of the stock of JCorp.

Big liquidates JCorp and receives all of JCorp’s assets in a liquidating distribution?

How much gain is recognized by Big on the receipt of this liquidating distribution? [Sec. 332(a)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Zero | **b.** | $200,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

[Sec. 337(a)] See information above for the combination of JCorp and Big.   
After the exchange of Big stock for Jan’s JCorp stock, Big owns all of the stock of JCorp.

Big liquidates JCorp and receives all of JCorp’s assets in a liquidating distribution?   
How much gain is recognized by JCorp as a result of its distribution of all of its assets to Big?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000 | **d.** | Zero |  |

[Sec. 334(b)(1)] Refer to the information above JCorp and Big. Big now owns all of the stock   
of JCorp. Big liquidates JCorp and receives all of JCorp’s assets in a liquidating distribution?   
What is Big’s total basis in the assets received in the liquidating distribution by JCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000 | **d.** | Zero |  |

**Dan Corporation Assets Acquired by Big Corporation. (Type C Reorganization)**

|  |  |  |
| --- | --- | --- |
| **Dan Corporation ("DCorp" )** | **Book Value** | **FMV** |
| Current Assets | $ 600,000 | $ 600,000 |
| Fixed Assets | 400,000 | 1,400,000 |
| **Total Assets** | **$ 1,000,000** | **$ 2,000,000** |
| Debt | $ -0- |  |
| Common Stock – Dan’s investment | 200,000 |  |
| Retained Earnings | 800,000 |  |
| **Owner Equity** | **$ 1,000,000** | **$ 2,000,000** |
| FMV of Jan's stock in DCorp |  | $ 2,000,000 |
| Dan’s total basis in all outstanding DCorp Stock: $ 200,000. | | |

Big Corporation issues Big Corporation common stock worth $2,000,000 to Dan Corporation for all   
assets owned by Dan Corporation. Dan will liquidate Dan Corporation as part of the reorganization plan.

[Dan will distribute the Big Corporation stock to its Dan’s shareholders.]

This transaction qualifies as a type C reorganization under section 368.

Big Corporation is referred to as “Big” and Dan Corporation is referred to as “DCorp.”

Refer to the information above for the combination of DCorp and Big.   
How much gain does DCorp recognize on exchange of its assets for the Big stock? [Sec. 361(a)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

[Sec. 1032(a)] Refer to the information above for the combination of DCorp and Big.   
How much gain does Big recognize on the exchange of its stock for the assets of DCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

[Sec. 362(b)] Refer to the information above for the combination of DCorp and Big.  
What is Big’s total basis for all assets received from DCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

[Sec. 358(a)(1)] Refer to the information above for the combination of DCorp and Big.  
What is DCorp’s basis for the Big stock received in exchange for the DCorp assets?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

[Sec. 361( c)] Refer to the information above for the combination of DCorp and Big.   
What is DCorp’s gain on distribution of the Big stock to DCorp’s shareholder (Dan) in liquidation?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $700,000 | **d.** | $0 |  |

[Sec. 354(a)] Refer to the information above for the combination of DCorp and Big.   
What is Dan’s income or gain on receipt of the liquidating distribution of the Big stock by DCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $700,000 | **c.** | $1,000,000 | **d.** | $2,000,000 |  |

Refer to the information above for the combination of J Corporation and Big Corporation.

What is Dan’s basis in the Big stock received from DCorp? [Sec. 358(a)(1)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000 | **d.** | Other |  |

**Divisive Reorganization. – Type D**

“Transferor corporation” is the one that transfers assets for stock, not corp that issues its stock.

|  |  |  |
| --- | --- | --- |
| **Local Corporation** has been owned equally by Ruth and Pat for ten years. | | |
| The corporation has been profitable, but has not paid dividends during that period. | | |
| The earnings were reinvested to grow the business to its current size. | | |
| Local has Accumulated E & P of $300,000. There is no debt. Ruth and Pat are not related. | | |
| Ruth and Pat are no longer able to agree on the management of Local Corporation. | | |
| Ruth wants to corporation to focus on the **industrial construction** business. | | |
| Pat opposes this approach. Pat prefers to concentrate on **residential construction**. | | |
| They have agreed to a division of the assets in exchange for Ruth surrendering | | |
| her shares in Local Corporation. Ruth's basis for her Local shares is $50,000. | | |
| **Local Corporation Assets** | **Basis** | **FMV** |
| **Assets for residential construction business** | **$200,000** | **$600,000** |
| **Assets for industrial construction business** | **200,000** | **600,000** |
| **Total assets** | **$400,000** | **$1,200,000** |
| Assume Local Corporation transfers all assets of the industrial construction business | | |
| to a new corporation named **Industrial Corp.** for all of its single class of stock. | | |
| All Industrial Corporation stock is distributed to Ruth and | | |
| she turns in her Local Corporation stock. That stock is cancelled. | | |

Refer to the information above for the division of Local Corporation among   
its shareholders, Ruth and Pat. Is this a Split-up, Split-off or Spin-off?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Split-up | **b.** | Split-off | **c.** | Spin-off |  |  |

Refer to information above for Local Corporation.   
What is Local Corporation’s gain on exchange of its industrial construction business   
assets for stock in the newly formed Industrial Corporation? [Sec. 361(a)]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |

Refer to information above for Local Corporation.   
What is Local Corp’s basis in the stock of newly formed Industrial Corporation? [Sec. 358]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |

Refer to the information above for Local Corporation.   
What is Industrial Corp’s basis in the assets received from Local Corporation? [Sec. 362(b)]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |

[Sec. 361( c)(1)] Refer to the information above for Local Corporation.   
What is Local Corp’s gain or loss on the distribution of Industrial Corporation stock to Ruth?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |

Refer to the information above for Local Corporation.   
What is Ruth’s recognized gain or income upon receipt of the stock in Industrial Corporation   
in exchange for her stock in Local Corporation? [Sec. 355(a)(1)]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |

Refer to the information above for Local Corporation.   
What is Ruth’s basis in the stock in Industrial Corporation? [Sec. 358(a)(1)]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $400,000 | e. | $600,000 |  |