**Homework for Chapter 8C**

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| **Apply the shareholder gain and loss rules for a corporate liquidation.**  |

[§301, §331(a), §1001]
What is the usual result to the **shareholders** of a distribution in complete liquidation of a corporation?

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| --- | --- | --- | --- | --- | --- |
| **a.** | No taxable effect. | **b.** | Ordinary gain to the extent of cash received. |  |  |
| **c.** | Capital gain or loss. | **d.** | Ordinary gain or loss.  | CPA |

[§301, §331(a), §1001] L Corporation stockholders adopted a plan of liquidation on January 31.
The corporation sold its property to an unrelated third party in one transaction, paid its income taxes, and immediately distributed cash of $900,000 to stockholders in complete liquidation. Corporate retained
earnings immediately prior to the distribution were $170,000. The aggregate stockholders' adjusted basis
in the stock was $660,000. The tax effects of the liquidation to stockholders are: [Sec. 331(a)]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Dividend Income** |  | **Capital Gain** |  | **Dividend Income** | **Capital Gain** |  |  |
| **a.** |  $220,000 |  |  $20,000 | **b.** |  $170,000 |  $70,000 |
| **c.** |  $170,000 |  |  $240,000 | **d.** |  $0 |  $240,000 |

[§301, §331(a), Reg. §1.331-1, §1001] Ms. Jones owns all of the stock in Charlotte
Corporation. She has a basis of $5,000 in the stock. Charlotte Corporation adopts a plan of
liquidation, pays all tax liabilities for the year, and distributes two assets to Ms. Jones:
(1) cash of $10,000 and (2) land with a basis of $30,000 and a value of $50,000.
What is the gain to be recognized by Ms. Jones as a result of this liquidation?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $5,000 | **c.** | $15,000 | **d.**  | $25,000 | e. | $55,000 |  |

[§301, §331(a)] Richards Corporation distributes these assets to its 100% shareholder
in complete liquidation of the corporation,

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Inventory | Basis |  $20,000 | FMV  | $20,000 |
| Land held as an investment | Basis  | $40,000 | FMV  | $40,000 |

The land is subject to a $30,000 liability. Earnings and profits at the time of the distribution (adjusted
as necessary for the liquidating distribution) was $25,000. The shareholder’s basis in the stock is $1,000.

What amount of income and/or gain is recognized by the shareholder receiving this distribution?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | $25,000 dividend income; $4,000 capital gain. | **c.** | $29,000 capital gain. |  |  |
| **b.** | $24,000 dividend income; $5,000 capital gain. | **d.** | $29,000 dividend income |  |

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| **Liquidating corporation may recognize gains and losses on a liquidating distribution.**  |

[§336(a)] Mr. Smith owns all of the stock in Local Corporation. He has a basis of $5,000 in
the stock. Local Corporation has only two assets, (1) cash of $10,000 and (2) land with a basis of $30,000
and a value of $50,000. Local Corp. is promptly liquidated, by distributing the land to Mr. Smith.
What is the gain to be recognized by Local Corporation as a result of this liquidation?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0  | **b.** | $10,000  | **c.** | $20,000 | **d.**  | $30,000 |  |  |  |

 [§336(a)] Krol Corp. distributed marketable securities in redemption of its stock in a
complete liquidation. On the date of distribution, these securities had a basis of $100,000 and a fair market value of $150,000. What gain does **Krol Corporation** have as a result of the distribution?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | $0. | **b.** | $50,000 capital gain |  |  |
| **c.** | $50,000 Section 1231 gain. | **d.** | $50,000 ordinary gain | (CPA) |

 [§336(b)] Richards Corporation distributes these assets to its 100% shareholder in
complete liquidation of the corporation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Inventory | Basis |  $15,000 | FMV  | $20,000 |
| Land held as an investment | Basis  | $30,000 | FMV  | $40,000 |

The land is subject to a $30,000 liability. Earnings and profits at the time of the distribution
(adjusted as necessary for the liquidating distribution) was $25,000.
What amount of income and/or gain is recognized by Richards Corp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** |  | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  |  |
| **a.** | $5,000 |  | $10,000 | **b.** | $20,000 | $5,000 |
| **c.** | –0- |  | $0 | **d.** | $5,000 | $0 |

 [§336(b)] Richards Corporation distributes these assets to its 100% shareholder
in complete liquidation of the corporation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Inventory | Basis |  $15,000 | FMV  | $20,000 |
| Land held as an investment | Basis  | $30,000 | FMV  | $40,000 |

The land is subject to a $50,000 liability. Earnings and profits at the time of the distribution
(adjusted as necessary for the liquidating distribution) was $25,000.

What amount of income and/or gain is recognized by Richards Corporation?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** |  | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  |  |
| **a.** | $5,000 |  | $10,000 | **b.** | $5,000 | $20,000 |
| **c.** | –0- |  | $0 | **d.** | $5,000 | $0 |

 [§336(b)] X corporation distributes property to an individual shareholder as part of a plan
of complete liquidation. The corporation's basis in the property is $45,000 and the property is subject
to a mortgage of $55,000 which the shareholder assumes. The FMV of the property is $50,000 on the
date of the liquidating distribution. What is the corporation's recognized gain or loss on the distribution?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,000 gain | **b.** | $10,000 gain | **c.** | No gain or loss  | **d.**  | $5,000 loss | **e.** | Other |  |

[§336(b)] Daring Corporation, pursuant to a plan of complete liquidation, distributed land
acquired in 1990 to Maria, its sole shareholder. The land had a fair market value of $120,000,
an adjusted basis to Daring of $90,000, and was subject to a liability of $110,000 which was
assumed by Maria. Maria owned 500 shares of Daring which she bought in 1988 for $50,000.
Daring does NOT qualify as a small business corporation. What is the character and the
amount of the gain or (loss) recognized by Maria and Daring Corporation? [Sec. 331, 336(b)]

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Maria** | **Daring** |  |  |
| a. |  $50,000 Ordinary loss | $30,000 Ordinary gain |
| b. |  $50,000 Long­-term capital loss | $35,000 Long-term capital gain |
| c. |  $40,000 Long­-term capital loss | $30,000 Long-term capital gain |
| d. |  $55,000 Long­-term capital loss | $35,000 Long-term capital gain |  |

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| **Sec. 332 and Sec. 337 nonrecognition rules may apply to the liquidation of a subsidiary.**  |

 [§332(a)] When a parent corporation completely liquidates its 80%-owned subsidiary,
the parent (as stockholder) will ordinarily

|  |  |  |
| --- | --- | --- |
| **a.** | Be subject to capital gains tax on 80% of the long-term gain. |  |
| **b.** | Be subject to capital gains tax on 100% of the long-term gain. |
| **c.** | Have to report any gain on liquidation as ordinary income. |
| **d.** | Not recognize gain or loss on the liquidating distributions.  | (CPA) |

[§337] Colin Corporation acquired 100% of the Lebeck Corporation stock
several years ago for $100,000. In the current year, Lebeck Corporation was liquidated.
Assets having a $130,000 FMV and $50,000 tax basis were transferred to Colin Corporation.
What is gain or loss if any will Lebeck recognize on this distribution in liquidation?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $20,000 gain.  | **b.** | $30,000 gain.  | **c.** | $50,000 gain.  | **d.**  | $0 |  |

[§61, §332(a), §1001, §1012)] Colin Corporation acquired 100% of the Lebeck Corporation
stock several years ago for $100,000. In the current year, Lebeck Corporation was liquidated.
Assets having a $130,000 FMV and $50,000 tax basis were transferred to Colin Corporation.
Immediately following the liquidation of Colin Corporation sells the assets for $130,000.
What is gain or loss if any will Colin Corporation recognize from the sale of the assets?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $30,000 gain. | **b.** | $80,000 gain. | **c.** | ($50,000) loss. | **d.**  | $0 none. |  |

[§61, §332(a), §334(b)(1), §338, §1001, §1012] Corporation P buys all of the stock in
Subsidiary Corporation for $20,000. On the date of acquisition, S Corporation has only one asset,
which is land with a basis of $18,000 and a value of $20,000. S Corp. is promptly liquidated.
Assume that section 332 and 338 apply. P Corporation later sells the land (received from S Corp.)
for $24,000. What will be the gain or loss for P Corporation on the sale of the land?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 loss | **b.** | $4,000 gain | **c.** | $6,000 gain | **d.** | Other |  |

[§332(a), §334(b)(1), §1001, §1012] Parent Corporation owns all of the stock of
Subsidiary Corporation. Pursuant to a plan of complete liquidation, Subsidiary distributes land
(its only asset) to its parent. The land had a $200,000 FMV and a $60,000 basis to Subsidiary.
Subsidiary’s recognized gain on the distribution is: [Sec. 338 does not apply here.]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $60,000  | **c.** | $140,000 | **d.** | $200,000 |  |

[§332(a), §334(b)(1)] Parent Corporation owns all of the stock of Subsidiary Corporation,
which has a basis to Parent of $140,000. Pursuant to a plan of complete liquidation,
Subsidiary distributes land (its only asset) to its parent. The land had a $200,000 FMV and
a $60,000 basis to Subsidiary. Parent’s basis in the land will be:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0  | **b.** | $60,000 | **c.** | $140,000 | **d.** | $200,000 |  |

[§61, §1001, §331, §332] Lark Corporation and its wholly-owned subsidiary, Day
Corporation, both operated on a calendar year. In January 2016, Day adopted a plan of
complete liquidation. In February, Day paid its debts and expenses; and distributed its
 remaining assets to Lark. These assets were the following:

|  |  |
| --- | --- |
| Cash | $50,000 |
| Land (at cost) | 10,000 |

Market value of the land was $30,000. Upon distribution of Day's assets to Lark, all of Day's
capital stock was canceled. Lark's basis for the Day stock was $7,000. Lark's recognized
gain in 2016 on receipt of Day's assets was:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | 50,000 | **c.** | $53,000 | **d.** | $73,000 |  |

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| **Effect of a liquidation on the liquidating corp.’s tax attributes.**  |

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| **Tax treatment for open and closed liquidation transactions.**  |

 How does a noncorporate shareholder treat the gain on a redemption of stock that qualifies
as a partial liquidation of the distributing corporation?

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| --- | --- | --- | --- | --- | --- |
| **a.** | Entirely as capital gain. | **b.** | Entirely as a dividend. |  |  |
| **c.** | Partly as capital gain and partly as a dividend. | **d.** | As a tax-free transaction. | (CPA) |

[§1001, §331] Smith is the sole shareholder of Great Corporation.

|  |  |  |
| --- | --- | --- |
| 2010 | Smith bought all of the newly issued stock of Daring for: | $300,000 |
| July 1, 2013 | Great Corporation adopted a plan of complete liquidation. |  |
|  | Great sold its assets and began distributing the cash to its stockholders | $400,000 |
| Dec. 31, 2013 | Great made its first distribution to Smith in the amount of:  | $200,000 |
| Jan. 31, 2014 | Great made its second & final distribution to Smith in the amount of: | $200,000 |
|  | After this liquidation, the corp. surrendered its charter to the state |  |

How much gain (loss) does Smith report for these receipts and his payment?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** |  | **2013** | **2014** |  | **2013** | **2014** |  |  |
| **a.** | ($100,000) | $200,000 | **b.** | $0 | $100,000 | **c.** | $50,000 | $50,000 |  |

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| **Determine when liquidating corporation recognizes gains & losses on retirement of debt.**  |

**Big Corporation (Big) wishes to acquire Jan Corporation (JCorp) or its assets.**

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| **Jan Corporation ("JCorp" ) 12-31-2014** |  **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. |

On 1-1-2015, Big Corporation will purchase all of the assets of Jan Corporation for a cash payment
of $2,000,000 to Jan Corporation. Jan will then liquidate Jan Corporation after it has paid any liabilities.

Assume there is no state income tax.

Also assume that Jan Corporation has no transactions in 2015 other than the sale of its assets, payment
of its income tax and distribution of its assets to Jan. Jan Corporation is referred to as “JCorp.”

 Refer to the information above for the acquisition of JCorp assets by Big Corporation.

How much gain does JCorp recognize on the sale of its assets? [Sec. 61, 1001, 1012]

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

Refer to the information above for the acquisition of JCorp assets by Big Corporation.
What is Jan’s gain on the receipt of the cash distribution from JCorp stock?
[Sec. Sec. 61, 331(a), 1001, 1002]

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000,000 | **b.** | $1,000,000 | **c.** | $200,000  | **d.** | $1,460,000  |  |

**Now assume that Big Corporation prefers to purchase the assets of JCorp directly from Jan
on 1-1-2015. Jan will take a liquidating distribution of all assets shown on the balance sheet
remaining after payment of any federal income tax liability. Assume current assets include
enough cash for payment of the income tax liability. Also assume that Jan Corporation has
no transactions in 2015 other than the liquidating distribution of its assets and payment
of its income tax. The corporation does not incur liquidation expenses.**

[Sec. 336(a)] Refer to the information above for the acquisition of JCorp assets by Big Corporation.

How much gain does JCorp recognize on the liquidating distribution of its assets?

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

[Sec. 11, 1201] Refer to the information above for the acquisition of JCorp assets by Big Corporation.

How much federal income tax does JCorp owe as a result of the liquidating distribution of its assets?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $150,000 | **c.** | $340,000  | **d.** | Other  |  |

[Sec. 61, 331(a), 1001, 1002] Refer to information above for acquisition of JCorp assets by Big Corp. How much income or gain does Jan recognize on receipt of the liquidating distribution of JCorp’s assets?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $800,000 | **c.** | $1,000,000  | **d.** | $1,460,000  |  |

[Sec. 334(a)] Refer to the information above for the acquisition of JCorp assets by Big Corporation.

What is Jan’s basis in the fixed assets received from JCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $400,000 | **c.** | $1,400,000  | **d.** | Other  |  |

**Dan Corporation - Acquired by Big Corporation.**

|  |  |  |
| --- | --- | --- |
| **Dan Corporation ("DCorp" ) 12-31-2014** |  **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 will purchase all of Dan’s stock in Dan Corporation for a cash payment of $2,000,000
to Dan. Big will then liquidate Dan Corporation. Dan Corporation is referred to as “DCorp.”

[Sec. 61, 1001, 1012] Refer to the information above for the combination of DCorp and Big Corporation.
How much gain does Dan recognize on the sale of DCorp stock?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,000,000 | **c.** | $1,800,000  | **d.** | $2,000,000 |  |

[Sec. 1012] Refer to the information above for the combination of DCorp and Big Corporation.
What is Big Corporation’s basis in the stock of DCorp?

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

[Sec. 332(a)] Refer to the information above for the combination of DCorp and Big Corporation.
How much gain does Big Corporation’s recognize on the liquidation of DCorp?

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

[Sec. 334(b)(1)] Refer to the information above for the combination of DCorp and Big Corporation.
What is Big Corporation’s basis for the fixed assets received from DCorp?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $400,000 | **c.** | $1,400,000  | **d.** | $2,000,000 |  |