

Mary Corporation (MaryCorp)	Book Value	FMV
Current Assets	\$4,000,000	\$4,000,000
Fixed Assets (Basis and FMV)	1,000,000	6,000,000
Total Assets	\$5,000,000	\$10,000,000
Debt	0	
Common Stock – Mary’s investment	2,000,000	
Retained Earnings	3,000,000	
Owner Equity	\$5,000,000	\$10,000,000
FMV of Mary's stock in Mary Corporation		\$10,000,000
Mary’s total basis in all outstanding Mary Corporation Stock: \$2,000,000.		

Duke Energy will pay \$6,000,000 to MaryCorp for all fixed assets of MaryCorp.

Mary will liquidate MaryCorp (receive cash of MaryCorp after payment of federal income tax).

There is no state income tax. MaryCorp has no carryover of losses, etc.

Mary Corp has no transactions this year, other than those identified in this problem.

The corporation will not incur liquidation expenses or other expenses.

- 21 Refer to information above for the acquisition of MaryCorp assets by Duke Energy Corp. How much total income or gain does Mary recognize on liquidation of MaryCorp?
- a. \$0 b. \$6,300,000 c. \$3,000,000 d. \$8,000,000
- 22 Refer to information above for acquisition of MaryCorp assets by Duke Energy Corporation. What is Duke Energy's basis in the fixed assets received from MaryCorp?
- a. \$0 b. \$1,000,000 c. \$6,000,000 d. Other

Refer to the balance sheet for Mary Corporation above for the next 5 questions.

Assume that Duke Energy trades Duke Energy stock worth \$10,000,000 to Mary for all of Mary's stock in Mary Corporation, in a transaction that is a tax-free reorganization.

- 23 How much gain does Mary recognize on the transaction?
- a. \$0 b. \$5,000,000 c. \$7,000,000 d. \$8,000,000
- 24 What is Mary's basis in the Duke Energy stock?
- a. \$0 b. \$2,000,000 c. \$5,000,000 d. \$10,000,000
- 25 What is Duke Energy's basis in the Mary Corporation stock?
- a. \$0 b. \$2,000,000 c. \$5,000,000 d. \$10,000,000
- 26 Duke Energy will liquidate Mary Corporation when its balance sheet is as shown above. How much gain or loss will Mary Corporation recognize on the liquidation?
- a. \$0 b. \$1,000,000 c. \$3,000,000 d. \$5,000,000
- 27 Duke Energy will liquidate Mary Corporation when its balance sheet is as shown above. What basis will Duke Energy have in the fixed assets?
- a. \$0 b. \$3,000,000 c. \$1,000,000 d. \$6,000,000

Contribute Assets to Corporation and receive Corporate Stock

61		Generally, GROSS INCOME includes ALL gains from dealing in property.
63		TAXABLE INCOME is equal to gross income, minus allowable deductions.
1001	a	The amount of gain or loss REALIZED on a sale or exchange of property = AMOUNT REALIZED, minus the basis of the property given in exchange.
	b	AMOUNT REALIZED = (1) money received plus value of other asset(s) received, plus (2) stockholder's debt that is assumed by corporation.
	c	All gain or loss REALIZED should be RECOGNIZED, except for exceptions.
351	a	A stockholder reports NO GAIN OR LOSS on a transfer of property to a corporation, if the stockholder receives "only" stock in exchange. See also Sec. 368(c) [Section 351(a) is an exception to Section 1001(c).]
368	c	Those investing property must be in control - 80% ownership- [note two 80% rules] otherwise the exchange is a taxable exchange under Sec. 1001.
351	b	If a stockholder receives assets other than stock of the corporation, (or the stockholder's debt is assumed by the corporation) the stockholder <u>may</u> RECOGNIZE GAIN on the exchange. Receiving "BOOT" may cause a REALIZED <u>gain</u> to be RECOGNIZED. [Gain may be recognized on receipt of assets or <u>certain</u> debt relief (debt relief is like cash).] Gain recognized is not more than cash plus FMV of other property received.
351	d	A stockholder recognizes ordinary income when the stockholder contributes "services" in exchange for stock in the corporation.
358	a 2	Basis of stock received (for services) will be the FMV of the stock.
357	a	If the corporation assumes debt of the stockholder, the debt assumption is not treated as cash or other property received (when computing gain), unless:
357	c	(1) the debt assumed by the corporation is greater than stockholder's basis in the asset(s) contributed to corporation, or
357	b	(2) there is a tax avoidance motive for the borrowing (debt).
358	a 1	A stockholder's BASIS in the stock received in the exchange is equal to the basis of assets invested by the stockholder, LESS: (1) cash or other assets received by the stockholder, and (2) ALL debt of the stockholder that is assumed by the corporation (3) Loss recognized on the transaction (In our class, we don't cover this situation) (4) PLUS any gain recognized by the stockholder.
358	d	If corporation assumes debt of stockholder, the debt assumed is treated as CASH received when computing "basis" of stock received by the stockholder.
1032		The corporation DOES NOT RECOGNIZE GAIN on issuance of its capital stock in exchange for property invested by a stockholder.
362	a	The corporation's BASIS of property (received as a contribution to capital) equals: (1) stockholder's basis in the property contributed to the corporation, PLUS (2) gain recognized by the stockholder that contributed the asset. If a stockholder contributes multiple assets (such as land and building) the basis adjustment for the gain is allocated based on FMV of the assets. (text-8-15)

Person making a contribution is called "stockholder" even though the person may "become" a stockholder.
A stockholder contributing the assets may be an individual, partnership, or corporation, etc.