**Transfer of Assets to Corporation in Exchange for Corporate Stock**

**Lady Gaga transferred a warehouse to GAGA Corporation in exchange for all of the stock of GAGA Corp.
The warehouse had a basis to Lady Gaga of $400,000 and a FMV of $500,000. There is no debt.
The FMV of GAGA Corporation stock received by Lady Gaga on the date of transfer was $500,000.
How much gain is recog­nized by Lady Gaga? What is the basis of the stock received by Lady Gaga?**

**What is the basis of the Building received by New Corporation?**

 **Study the Tax Law Below and complete the worksheet on the next page.**

**1001(a) Computation of Gain or Loss.**
The gain from the sale or other disposition of property shall be the **excess** of the **amount realized** therefrom **over** the **adjusted basis** provided in section 1011 for determining gain, and the loss shall be the excess of the adjusted basis provided in such section for determining loss over the amount realized.

**(b) Amount Realized.** The **amount realized** from the sale or other disposition of property shall be the sum of any money received plus the fair market value of the property (other than money) received…

**(c) Recognition of Gain or Loss. Except as** **otherwise provided** in this subtitle, the entire amount of the **gain or loss**, determined under this section, on the sale or exchange of property **shall be recognized.**

**(d) Installment Sales. [**This section does not prevent a taxpayer from using the installment sales method for property sold on the installment basis].

# Sec. 351.Transfer to Corporation that is Controlled by Transferor (Gain recognized)

**(a) General Rule. No gain or loss** shall be recognized if property is transferred to a corporation by one or more persons **solely** in exchange for stock in such corporation and immediately after the exchange such person or persons are in **control** (as defined in section 368(c)) of the corporation.

**(b) Receipt of Property.** If subsection (a) would apply to an exchange but for the fact that there is received, in addition to the stock permitted to be received under subsection (a), other property or money, then—

**(1) gain (if any)** to such recipient shall be recognized, but not in **excess** of-

**(A)** the amount **of money** received, plus

**(B)** the **fair market value** of such other property received; and

**(2) no loss** to such recipient shall be recognized.

**368(c) Control Defined.**  For purposes of …this part … , the term “control” means ownership of stock possessing at least **80 percent of the total combined voting power of all classes of stock** entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation.

# Sec. 1032. Exchange of Stock for Property

**(a) Nonrecognition of Gain or Loss**. **No gain or loss shall be recognized to a corporation** on the receipt of money or other property in **exchange for stock** (**including treasury stock**) of such corporation. ..

# Sec. 358. Basis to Distributees (Basis to Lady GAGA)

**(a) General Rule.** In the case of an exchange to which **section 351,** 354, 355, 356, or 361 applies—

**(1) Nonrecognition property.**
The **basis** of the property permitted to be **received** under such section without the recognition of gain or loss [note: this is stock received] shall be the **same as that of the property exchanged [Warehouse]**-

**(A) decreased by-**

**(i)** the fair market value of any other property (except money) received by the taxpayer,

**(ii)** the amount of any money received by the taxpayer, and

**(iii)** the amount of loss to the taxpayer which was recognized on such exchange, and

**(B) increased by—**

**(i)** the amount which was treated as a dividend, and

**(ii)** the amount of gain to the taxpayer which was recognized on such exchange (not including any portion of such gain which was treated as a dividend).

# Sec. 362. Basis to Corporations

**(a) Property Acquired by Issuance of Stock or as Paid-In-Surplus.** If property was acquired on or after June 22, 1954, by a corporation-

**(1)** in connection with a transaction to which section 351 (relating to transfer of property to corporation controlled by transferor) applies, or

**(2)** as paid-in surplus or as a **contribution to capital**,**then
 the basis shall be the same as it would be in the hands of the transferor, increased in the amount of gain recognized to the transferor on such transfer……**..