25

1)

Q1

P is buying T in an asset deal. The value paid for the assets must be allocated amongst the assets. Williams. If the parties agree to the distribution of purchase price, then the agreed value will be binding upon the parties. Since there is no agreement as to the allocation of purchase price, then the value is distributed according to 1060 and the categories of assets sold. P would like the inventory to take most of the value as it can be written off when sold. While T would like capital gains (however here it will likely take a capital loss on the property). P will take a cost basis in the assets. Here the cost of the deal is 1.5 M dollars (1.2M + .3 M liability assumed). The IRS will mandate each party to allocate the cost and report it. The numbers each party reports are binding on that party but not on the IRS. We assume that this cost will be distributed: 800K to Greenacre, 510K to inventory, and 190 K to intangibles because these are the given values. Land is not depreciable, inventory will be deductible when sold, and intangibles are amortizable over 15yrs. 197. Timing for holding periods start over. T's E&P remains with T in an asset deal.

T will recognize gains on assets of FMV-basis. T will recognize a capital loss on its sale of greenacre of 100K (assuming T is not a dealer in real estate); It will recognize ordinary income on the sale of its inventory of 210K; and it will recognize 190k in intangibles--a capital gain. Capital losses count against capital gains thus 90k total is realized in capital gain. Taxes are owed on T's gain: 300k total as for tax rates there is no differentiation between capital and ordinary gains at the corporate level.

On the liquidation, the shareholders are treated as having sold their shares to the corporation,

and they will be taxed on the gains realized. 331. Here each shareholder will recieve 400k for 250K basis stock= 150k realized gain. This will be capital; stock which is a capital asset. On a liquidation the E&P of T will dissappear.

Q2.

A.

Hallie can qualify for a tax free 351 exchange. She will recieve 100 shares of equity stock in exchange for property; she will be in control immediately after the exchange because she will own all of the stock in the company on 3/1/06. The fact that she exchanges property with a mortgage does not effect the applicability of 351. If the purpose of the liability was not tax avoidance then the assumption of the liability by N will not be boot to H. However, for the computation of H's basis in her stock, we consider her basis and count the liabilty assumed as cash recieved (if the liability is not something that would be deductible when paid). 357. Here, there would be a negaitve basis in her stock, so to the extent that the basis is negative, H will be taxed. Here she will be taxed on 100k gain (650-750=-100); this gain will be ordinary because she is a real estate dealer and the gain is realized on the sale of real estate. 358. H's basis in her stock is zero. N will obtain a basis carryover basis increased by the amount realized by H here 650+ 100 (H's realization)=750 basis.

I is transfering his services and cash for stock. Because services are not property for 351 purposes, he must contribute a substantial amount of money compared to the value of his services, so that his property contribution is not "di minimis." Di minimis contributions are those of 10% of the value of the stock recieved or less. Here I contributed 7k in property for stock worth 100k -- this is di minimis, so this transaction does not get 351 treatment. I does not really need 351 treatment because he just put in money... spending money will not be taxable to him.