EXAMPLIFY PASSWORD:

Advanced Corporate Tax **Spring 2023**
Bogdanski

WRITE YOUR EXAM NUMBER HERE: ________

FINAL EXAMINATION
(Three hours)

INSTRUCTIONS

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QUESTION 1
(One hour)

Arnie and Bao form a corporation, Corp. In the formation transaction, the following exchanges take place:

- Arnie receives from Corp 100 shares of Corp nonvoting preferred stock, with a fair market value of $330,000, in exchange for two parcels of real estate, Redacre and Greenacre. Immediately before the exchange, Redacre has a fair market value of $120,000 and an adjusted basis in Arnie's hands of $200,000. Immediately before the exchange, Greenacre has a fair market value of $210,000 and an adjusted basis in Arnie's hands of $180,000.

- Bao receives from Corp 100 shares of Corp voting common stock, with a fair market value of $100,000, in exchange for $10,000 cash and $90,000 worth of future services to be provided on Corp's behalf by Bao as an employee.

What are the federal income tax consequences to Arnie, Bao, and Corp of each of the transactions just described, with and without all available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the stock or assets that party holds at each stage of the transactions.

Discuss.

(End of Question 1)

QUESTION 2
(One hour)

Hank owns 60 shares of the only class of stock of Topco, a C corporation. The other 40 shares of the Topco stock are held by Hank's granddaughter, Gert. Each share of Topco stock held by Hank or Gert has an adjusted basis of $10,000. Thus, the aggregate basis of the Topco stock held by Hank is $600,000, and the aggregate basis of the Topco stock held by Gert is $400,000.

Topco owns 75 shares of the only class of stock of another C corporation, Doughco. The other 25 shares of the Doughco stock are owned by Ulanda, an individual who is not related to Hank, Gert, or Topco.

Topco has current and accumulated earnings and profits of zero. Doughco has no current earnings and profits but accumulated earnings and profits of $1,000,000.

Hank sells all 60 of his shares of Topco stock to Doughco for $25,000 each, or a total of $1,500,000. Doughco pays the full purchase price to Hank in cash. Doughco retains the Topco stock it purchases from Hank.

What are the federal income tax consequences to Hank, Gert, Topco, and Doughco of each of the transactions just described, with and without all available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the stock or assets that party holds at each stage of the transactions. Assume that Topco does *not* elect to be an S corporation.

Explain.

(End of Question 2)

QUESTION 3
(One hour)

Parco, a corporation the stock of which is publicly traded, owns 90 shares of the only class of stock of another corporation, Subco. The other 10 shares of Subco's stock are held by an individual, Irene. Parco's adjusted basis in all of its Subco stock is $900,000. Irene's adjusted basis in all of her Subco stock is $200,000. Both Parco and Subco have substantial (but reasonable) accumulated earnings and profits.

In 2023, Subco adopts a plan of complete liquidation and immediately commences to wind up its business and settle its debts. Following the adoption of the plan, Subco distributes $450,000 in cash to Parco and $50,000 in cash to Irene during 2023. In 2024, Subco distributes $900,000 in cash to Parco and $100,000 in cash to Irene.

In 2025, in a third and final round of liquidating distributions, Subco distributes real property in kind to its shareholders, as follows: Subco distributes Parcel No. 1 to Parco and Parcel No. 2 to Irene. Immediately before the distribution, Parcel No. 1 has an adjusted basis in Subco's hands of $500,000 and a fair market value of $900,000. Immediately before the distribution, Parcel No. 2 has an adjusted basis in Subco's hands of $120,000 and a fair market value of $100,000. Neither distributed parcel had been contributed to Subco by a shareholder. Neither distributed parcel is subject to any liability.

What are the federal income tax consequences to Parco, Subco, and Irene of each of the transactions just described, with and without all available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the stock or assets that party holds at each stage of the transactions.

Discuss.

(End of examination)