Corporate Tax II

Syllabus and Problems

New York University School of Law

Professor Gardner

Spring, 2018
Syllabus

II. Liquidations and Section 338 Transfers

A. Liquidations

(3) Parent-Subsidiary Liquidations.


Regs: §§ 1.332-1, -2, -5, -7, 1.453-11(c)(3).

Materials: items 51 – 52

Problem 4, question (4).

B. Section 338 Transfers

Code: §§ 338, 336(e)

Regs: §§ 1.338-1(a); -10(a)(1), (2), (5), (7); -4(a), (b)(1), (c)-(f), (g) Ex.'s 1-4; -5(a), (b)(1), (c)-(f), (g) Ex. 1, -6; 1.338(h)(10)-1(a)-(e) Ex. 9; 1.338(h)(10)-1T; 1.336-1, -2(a), (b)(1), -2(k) Ex. 1.

Problem 4, questions (5) – (6)
III. Section 351 Transfers

A. In General

Code: §§ 351 [skip § 351(c)(2), (e)], 358(a), (b)(1), (e), 368(c), 306(c)(2)-(4); 118(a), 108(e)(6), (8), 1032, 362(a), (c), (e); 1223(1), (2), 7701(a)(42)-(45); review 267(a)(1), 453(g), (i), 1239, 1245(b)(3).

Regs: §§ 1.351-1(a), (b), -2, 1.1032-1; Prop. 1.453-1(f)(3)(i), (ii), (iii) Ex. (3); 1.362-4(a)-(g), (h) Ex. 1-3; Prop. 1.362-3 (Sept. 9, 2013) [skim].

Materials: items 55 – 60, 62 – 64

Problem 5, questions (1) – (5).

B. Treatment of Liabilities.

Code: §§ 357, 358(d), (h), 362(d), 362(e).

Regs: §§ 1.357-1, -2, 1.358-3, 1.1502-80(d).

Materials: items 67, 67(a) – 69

Problem 5, questions (6) – (10).

C. Investment Companies.

Code: § 351(e)(1)

Regs: § 1.351-1(c).

IV. Acquisitive Reorganizations

A. Non-triangular Reorganizations.

(1) Asset Acquisitions.

Code: §§ 368(a)(1)(A)-(D), 368(a)(2)(A), (B), (G), (H), 368(b) (skip flush language), 368(c), 354(a) & (b), 356 (skip portions relating to § 355), 351(g), 357(a) & (b) (note references to § 361), 357(c) (note reference to § 368(a)(1)(D)), 358(a) (note reference to §§ 354, 356 & 361), 358(b), (d), (e), (f), 361, 362(b), 381(a), 1032, 1036. Also, review §§ 331(a), 332(a) & (b), 334, 336(a) & (c), 337(a), 351.
(2) Stock Acquisitions.


Regs: § 1.368-2(c).

Materials: items 85 – 87

Problem 7

B. Triangular Reorganizations.

Code: §§ 368(a)(1)(B) & (C) (parenthetical references to corporation in control of acquiring corporation), 368(a)(2)(C), (D) & (E), 368(b) (flush language), 358(e).

Regs: §§ 1.368-1(d)(4), (5) Ex’s 6-12, -2(b)(2), (d)(1), (f), (j), (k), 1.358-6, 1.1032-2, -3, 1.381(a)-1(b)(2); 1.368-1(d)(4); -1(d)(5) and -2(k).

Materials: items 88 – 93

Problem 8

C. Multi-step Acquisitions.

Regs: §§ 1.368-1(a), (e)(7) Ex.’s 4 & 7, 1.368-2(d)(4); 1.338-3(d), 1.338(h)(10)-1(c)(2), (e) Ex’s 11-14.

Materials: items 94 – 99, 102 – 103, 118

Problem 9

D. Dividend Equivalency.

Code: §§ 356(a)(2).

Regs: § 1.356-1.

Materials: item 104
V. “D” Reorganizations and Spinoffs

A. Acquisitive D Reorganizations.

Code: §§ 368(a)(1)(D), (2)(A), (H), 354(b), 357(c)(1).

Regs: § 1.368-1(b)

Materials: items 106, 96

Problem 11A

B. Divisive D Reorganizations and Spinoffs in General.

Code: §§ 355(a)-(d), (f), 356 (the portions related to § 355), 351(c), 368(a)(1)(D), 368(c), 358(b)(2), (c), (g), 361(c), 312(h). Review § 302(e).

Regs: §§ 1.355-1, -2, -3, -4, 1.356-2, 1.312-10, -11(a).

Proposed

Regs: § 1.355-2, -9 (skim)

Materials: items 107-108, 110-114, 119

Problem 11B

C. Morris Trust Transactions, Disguised Sales and Related Issues.

Code: §§ 351(c)(2), 368(a)(2)(H), 355(b)(2)(D), (d), (e).

Regs: §§ 1.355-2(c); skim 1.355-6, -7.

Materials: items 109, 115

Problem 11C
Problem 4

Seller S, an individual, owns all ten shares of target T Corporation. S’s basis in the T stock is $1 per share. T owns assets with an appraised fair market value of $250, and T’s basis in the assets is $50. T owes $100 of bank debt. Purchaser P Corporation wants to purchase T for cash. S, T and P are U.S. persons.

(1) T adopts a plan of liquidation in June of this year and distributes its assets (subject to the bank debt) to S in September, and in December S sells the assets to P (subject to the bank debt) for $150 cash. Determine the consequences to T, S and P.

(2) T adopts a plan of liquidation in June and sells its assets (subject to the bank debt) to P in September for $150 cash, and in January of next year T distributes the $150 to S. Determine the consequences to T, S and P.

(3) Same as (1) and (2), except that the consideration paid by P is $100 cash and P’s $50 note payable two years hence (and bearing competitive interest in the meantime).

(4) Repeat questions (1), (2), and (3) on the assumption, for this question only, that S is a corporation.

(5) In the following variations, rather than assuming a purchase price of $250 ($150 cash and notes and assumption of $100 bank debt), determine the appropriate purchase price and tax consequences to all parties if:

(a) P purchases assets from T and T liquidates.
(b) P purchases T stock from S and P does not make a Section 338(g) election.
(c) Same as (b), except that P does make a Section 338(g) election.
(d) Same as (c), except that P purchased one share of T from S several years ago at a price of $5.

(6) Repeat question (5) in the following variations making the assumption that S is a corporation that files a consolidated return with T:

(a) P purchases assets from T and T liquidates.
(b) P purchases T stock from S and P does not make a Section 338(g) election.
(c) Same as (b), except that P does make a Section 338(g) election.
(d) Same as (c), except that P and S make an (h)(10) election.
(e) Same as (d), except that P purchased one share of T stock from S several years ago at a price of $5.
Problem 5

A, B, C and D each are independently engaged in engineering consulting businesses. They are unrelated, cash-method taxpayers. After deciding to join their businesses, the parties form X Corp. (an accrual method taxpayer) and transfer the following property to it:

<table>
<thead>
<tr>
<th>transferor</th>
<th>property</th>
<th>adjusted basis</th>
<th>fair market value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>equipment</td>
<td>$10</td>
<td>$25</td>
</tr>
<tr>
<td>B</td>
<td>cash</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>C</td>
<td>accounts rec’ble</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>D</td>
<td>building</td>
<td>30</td>
<td>25</td>
</tr>
</tbody>
</table>

In exchange, each transferor receives 25 shares of X Corp common stock.

1. Determine the federal income tax consequences (recognized gain or loss, basis and holding period) of these transfers to A, B, C, D and X Corp.

   (a) In light of alternatives, does it make sense for income tax purposes for the parties to form a corporation? If not, can you generalize about the context in which most Section 351 transfers take place today?

   (b) Suppose the parties subsequently make additional contributions of equal value to X without taking back additional stock.

   (c) Suppose the parties subsequently cancel equal amounts of debt owed to them by X, either in return for stock or as a contribution to capital.

2. Same as (1), except that two days after the transfers B sells his X Corp stock to a third party.

3. Same as (1), except that B transfers only $5 cash to X Corp, for which he receives five shares of stock. The other 20 shares are consideration for services B will perform for X Corp.

4. Same as (1), except that D’s transfer of the building takes place six months after the other transfers.

5. Same as (1), except that in exchange for his equipment, A receives 15 shares of X Corp stock and, alternatively:

   (a) $10 cash.

   (b) X’s $10 promissory note (bearing competitive interest).

   (c) $10 par value and fair market value of X preferred stock.

   (i) Suppose the stock may be put by A or called by X in ten years.
(6) Same as (1), except that the equipment transferred by A has a fair market value of $35, and is subject to a mortgage of $10.

(7) Same as (1), except that the equipment transferred by A has a fair market value of $45, and is subject to a mortgage of $20.

(8) Same as (1), except that C transfers $40 in trade accounts receivable and $15 in trade accounts payable.

(9) Suppose in (7) that A transfers a 10% undivided interest in the equipment to each of ten corporations (each qualified under § 351), each transferee taking the undivided interest subject to all $20 of debt.

(i) Suppose A is a foreign person not doing business in the United States.

(10) Suppose the liability in (8) is an accurately estimated future product liability of C (as opposed to accounts payable), and further that the asset conveyed by C is a Treasury security that A recently purchased for $40 (as opposed to accounts receivable).
Problem 6

X is a closely held corporation with 100 shares of common stock outstanding, owned 50 shares by A (basis $200), 30 by B (basis $400), and 20 by C (basis $150). X has $400 accumulated earnings and profits, and has the following balance sheet:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>basis</td>
</tr>
<tr>
<td>non-operating</td>
<td>200</td>
</tr>
<tr>
<td>operating</td>
<td>700</td>
</tr>
<tr>
<td></td>
<td>900</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

P is a publicly held corporation listed on the New York Stock Exchange.

Determine the principal tax consequences to X, A, B, C, and P in the following transactions.

(1) X transfers all of its assets to P for the following alternative types of consideration (after which X promptly liquidates):

(a) $1,200 of notes, payable over 5 years and bearing interest at market rates.

(b) $1,200 of registered bonds, payable after 20 years (Convertible into P common stock for 5 years) and bearing interest at market rates.

(c) $1,200 par value and fair market value of nonvoting, cumulative preferred stock bearing a market-rate coupon.

(d) Same as (c) except that the preferred stock is voting stock (although its voting power represents a minimal percentage of P’s total voting stock). Assume that the preferred stock may not be put or called, nor mandatorily redeemed, for at least:

(i) 21 years, or

(ii) 10 years.

(e) $100 of short-term notes, $500 of 20-year bonds, and $600 worth of common stock.

(f) In the foregoing variations, why would the parties structure the acquisition as an actual conveyance of assets, as opposed to a merger? What result if the transaction is effected as a statutory merger pursuant to state corporation law in
which, by operation of such law, P becomes the owner of X’s assets and assumes X’s liabilities and provides the following additional consideration:

(i) $200 worth of common stock and $800 par value and fair market value of nonvoting preferred stock. Here, as in part (d) above, assume that the preferred stock may not be put, called, or redeemed for at least 21 years, or, alternatively, 10 years.

(ii) $100 of short-term notes, $500 of 20-year debentures, and $400 worth of common stock.

(iii) $800 of common stock and $200 of warrants on common stock.

(g) What effect would the following alternative variations have on the validity of the transaction as a statutory merger in part (f):

(i) X merged into P’s wholly owned limited liability company, LLC, which is disregarded for federal income tax purposes;

(ii) X itself is a wholly owned LLC (disregarded for federal income tax purposes) of a corporation, Z Corp., owned by individuals A, B, and C; or

(iii) pursuant to state corporation law, X retained certain assets and remained in existence.

(2) X merges into P, solely for P common stock and, alternatively:

(a) Shortly after the merger A, B, and C sell all of their P stock in the market.

(b) Same as part (a) except that, instead of A, B and C selling in the market, P redeems their stock or an affiliate of P purchases the stock from them.

(c) Same as part (b) except that the redemption or purchase takes place one year after the merger.

(d) B dissents from the transaction and his X stock is purchased for cash? Suppose A also dissented and was likewise bought out for cash.

(3) X transfers all of its operating assets to P free and clear of liabilities solely for $900 worth of P common stock and then liquidates:

(a) Same, except that P issues only $700 of stock and assumes X’s liabilities.

(b) Same, except that P issues only $800 of stock and X does not transfer $100 of its operating assets to P.

(4) X transfers all of its assets to P for the following alternative consideration and then liquidates:

(a) $200 worth of P nonvoting preferred stock and $1,000 worth of P common stock.
(b) $40 of short-term notes, assumption of X’s $200 of liabilities, and P common stock worth $960.

(c) Shortly before the contemplated transfer, X borrows $300 (which it uses to redeem B’s stock); P then assumes X’s $500 of liabilities and issues $700 of its common stock in exchange for the X assets.

**Problem 7**

X is a closely held corporation with 100 shares of common stock outstanding, owned 50 shares by A (basis $200), 30 by B (basis $400), and 20 by C (basis $150). X has $400 accumulated earnings and profits, and has the following balance sheet:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>basis</td>
<td>value</td>
</tr>
<tr>
<td>non-operating</td>
<td>$ 200</td>
</tr>
<tr>
<td>operating</td>
<td>700</td>
</tr>
<tr>
<td></td>
<td>900</td>
</tr>
</tbody>
</table>

Capital

$1000

P is a publicly held corporation listed on the New York Stock Exchange.

Determine the principal tax consequences to X, A, B, C, and P in the following transactions.

(1) P acquires all of the X stock from A, B and C solely in exchange for voting preferred stock of P.

(a) Suppose, in addition, that P purchases X’s outstanding debentures (held by L) for $200?

(b) Suppose, alternatively, that P issues its own 15-year debentures in exchange for the X debentures held by L?

(c) Suppose, in addition to acquiring the X stock, P advanced $100 working capital to X.

(2) P acquires all of the X stock for $200 cash and $800 worth of P voting stock (the cash and P stock being allocated among A, B and C in proportion to their X stockholding).

(a) Suppose instead that P acquired A’s and B’s X stock solely for P voting stock and acquired C’s X stock for cash.

(3) On January 2, July 1, and December 1, respectively, P acquires B’s X stock for cash,
C’s X stock solely for P voting stock, and A’s X stock solely for P voting stock.

(4) X redeems B’s and C’s stock and P acquires A’s X stock solely for P voting stock.

(a) Suppose instead that X redeems A’s and C’s stock and P acquires B’s X stock solely for P voting stock.

(b) Suppose instead that X distributes a pro rata dividend to A, B, and C prior to P’s acquisition of their X stock solely for P voting stock.

(5) P acquires all of the X stock solely for P voting stock. As part of the transaction, P agrees to pay the cost of registering its stock, stock transfer taxes, and legal and accounting fees arising out of the transaction. P also agrees to continue the employment of A, B, and C and to increase their compensation. Any problems?

Problem 8

A, an individual, owns all of the stock of X Corp, in which he has a basis of $600. X has assets with a basis of $900 and a value of $1,200, has outstanding liabilities of $200, and has earnings and profits of $300.

P is a publicly held corporation listed on the New York Stock Exchange. S is a wholly owned subsidiary of P, in whose stock P has a basis of $100.

(1) Determine the consequences to A, X, P, and S in the following alternative transactions:

(a) X transfers all of its assets to P solely for P voting stock and P’s assumption of X’s liabilities, and P immediately transfers the assets (subject to liabilities) to S in exchange for additional S stock. X liquidates, distributing the P stock to A.

(b) Any difference if, instead:

(i) X transfers all of its assets to S in exchange for S’s assumption of X’s liabilities and P’s transfer of $1,000 of its voting stock directly to X. X liquidates, distributing the P stock to A.

(ii) Same as (i), except that S transferred the P stock to X, S having previously received the P stock from P for this purpose.

(c) Same as (b)(ii), except that S purchased the P stock on the market for $700 or, alternatively, $1,200.

(2) S acquires all of A’s X stock solely in exchange for the transfer by P of its voting stock to A.

(a) Determine the consequences to A, X, P, and S.

(b) Any difference if, instead:
(i) P acquired A’s X stock and contributed it to S.

(ii) S transferred the P stock to A, S having previously received the P stock from P for this purpose.

(c) Suppose instead that the consideration received by A was $800 of P voting stock and $200 of S voting stock.

(d) Same as (a), except that S transferred the X stock to its subsidiary G in exchange for G stock.

(e) Same as (d), except that G acquired the X stock directly from A.

(3) P transfers $1,000 of its voting stock to its newly formed subsidiary S in exchange for S stock. S, which owns no assets other than P stock, merges into X under state law. In the merger, the S stock owned by P is cancelled and in exchange P receives $1,000 of X stock, and the X stock owned by A is exchanged for the $1,000 of P stock acquired by X. As a result of these exchanges, P owns 100% of X and A is a minority stockholder of P.

(a) What simpler form of reorganization does this transaction resemble?

(b) Determine the consequences to A, X, P, and S.

(c) Suppose P already owned 21% of X prior to the merger?

(d) Suppose X redeemed half of A’s stock for cash immediately prior to the merger.

(e) Suppose X sells a major portion of its business immediately after the merger.

(f) Suppose P drops the X stock into its first-tier subsidiary shortly after the merger.

(4) In a statutory merger, S acquires all of the assets of X (and assumes X’s liabilities) solely in exchange for $1,000 of P nonvoting preferred stock, S having previously received the P stock from P for this purpose. The X stock is cancelled and A receives the P stock in exchange.

(a) Determine the consequences to A, X, P, and S.

(b) Suppose instead that the consideration is $400 of S’s 20-year bonds and $600 of P nonvoting preferred stock.

(c) Suppose S drops the X assets into a subsidiary shortly after the merger.

(d) Suppose S drops the X assets into a partnership shortly after the merger.
Problem 9

Assume the following general facts in each of the alternative transactions described below: T Corp is an operating company with no liabilities and with assets having a basis of $700 and value of $1,000. A is a group of individuals each of whom owns an equal percentage of T stock. P Corp is a publicly held operating company listed on the New York Stock Exchange. S is a wholly owned subsidiary of P.

(1) For many years, P has owned 70% of T (basis $20) and the A group has owned 30% of T (basis $10).

(a) Pursuant to a plan of reorganization, T transfers all of its assets to P solely in exchange for voting stock of P. Shortly thereafter, and as part of the plan, T liquidates, distributing 70% of its assets to P and 30% to the A group (which assets consisted solely of P stock). What are the consequences to the A group, T and P?

(b) Suppose instead that T merges into P under state law?

(c) Suppose instead that P acquires all of the A group’s T stock solely for P voting stock worth $300?

(d) Suppose instead that P transfers $1,000 worth of its voting stock to S, and that T then transfers all of its assets to S solely for the P stock and liquidates?

(2) For many years, P has owned 80% of T (basis $20) and the A group has owned 20% (basis $10). T transfers all of its assets to P solely for P voting stock and liquidates.

(3) P did not own any of the T stock before the transactions described below; the A group owned all 100% of T (basis $30). Determine whether the following integrated transactions qualify as a reorganization and, in parts (e) through (g), whether a Section 338 election may be made. Is there a trend in the authority?

(a) P purchases 50% of the A group’s T stock for $500 cash, and shortly thereafter T transfers all of its assets to P solely for $500 worth of P voting stock and liquidates.

(b) Suppose instead that P transfers $1,000 worth of its voting stock to S, and that shortly after P’s purchase of 50% of the T stock from the A group T transfers all of its assets to S solely in exchange for P stock and liquidates.

(c) Suppose instead that T merges into P under state law following P’s purchase of the 50% stock interest in T.

(d) P acquires 50% of the A group’s T stock in exchange for $500 worth of P voting stock and S then merges into T. In the merger, the rest of the A group receives $350 worth of P voting stock and $150 cash.

(e) P acquires, for $800 cash, 80% of the A group’s T stock, either in a tender offer
or reverse triangular merger, and T then merges into P. In the merger, the remaining 20% of the A group’s T stock is exchanged for $200 worth of P stock.

(f) P acquires all of the T stock, either in a tender offer or reverse merger, in exchange for $750 worth of P voting stock and $250 cash, and T then merges into P.

(g) Same as (f), except that A is a parent corporation instead of a group of individuals.

Problem 10

[DELETED]
Problem 11

General Facts

X Corp is engaged in two lines of business (and has been so engaged for the last 5 years unless the facts specify otherwise): cable systems communication and computer manufacturing. The cable assets have a fair market value of $1,400 and the computer assets a fair market value of $1,000. X’s tax bases in the cable assets and computer assets are $400 and $600, respectively. X has $400 of liabilities and $500 of accumulated earnings and profits.

A. For purposes of this part of the problem, assume that X is a wholly owned subsidiary of parent corporation P. P’s basis in the X stock is $1,000. S is another wholly owned subsidiary of P. X transfers all of its assets, subject to all $400 of debt, to S in exchange for S stock. X liquidates and distributes the S stock to P.

(1) Determine the consequences to the parties.

(a) Would it matter if S did not issue stock to X?

(b) Suppose that X’s total assets basis is $300 instead of $1,000.

(c) Suppose that P owned only 60% of the S stock after taking into account stock issued by S in the acquisition of X’s assets.

(d) Suppose that S paid $200 cash, in addition to issuing stock, to acquire X’s assets and that X distributed the cash along with the S stock to P.

(e) Suppose in part (d) that P’s basis in the X stock is $2,000.

B. For purposes of this part of the problem, assume that A and B each owns half of the X stock. A’s stock basis is $800 and B’s is $1,200.

(2) Determine the tax consequences to the respective parties of the following transactions and what additional facts you would like to know before giving advice.

(a) X transfers all of the cable assets (subject to $400 debt) to Y Co. for all of its stock and all of the computer assets (free and clear) to Z Co. for all of its stock; immediately thereafter X liquidates and distributes the Y and Z stock ratably to A and B.

(b) Suppose, instead of making a pro rata distribution of Y and Z stock, X distributes the Y stock to A and the Z stock to B?

(c) Would your answer to (b) be changed if A had purchased his X Co. stock six months before the distribution.

(d) Suppose instead that X transfers the cable assets (subject to $400 debt) to Y Co. for all of its stock; immediately thereafter, the Y stock is distributed to A in exchange for all of his X stock.
(e) Would your answer to (d) be changed if in addition to Y stock being distributed to A, X also distributed a building worth $50, in which X had a $10 basis, to A.

(f) Suppose instead that X transfers the computer assets (subject to $400 debt) plus $400 of working capital from the cable business to Y Co. for all of its stock; immediately thereafter, the Y stock is distributed to A in exchange for all of his X stock.

(g) Suppose instead that X transfers the cable assets (subject to $400 debt) to Y Co. for all of its stock; immediately thereafter X distributes the Y stock equally to A and B.

(3) How would the following variations affect the case for tax-free treatment under Section 355?

(a) X was formed three years ago pursuant to a consolidation of separate corporations owning the cable and computer businesses?

(b) X acquired the cable assets three years ago and:

(i) the seller was a tax-exempt organization;

(ii) the purchase price equaled the seller’s tax basis; or

(iii) the acquisition was a statutory merger in which target shareholders received stock and $100 of boot.

(c) X owns the cable business (subject to $400 of debt) and, instead of the computer business, a 70% stock interest in Computer Corp. (worth $1000). X transfers the Computer Corp stock to Y Co. for all of its stock and then distributes the Y stock:

(i) equally to A and B;

(ii) to A in exchange for all of his X stock; or

(iii) Suppose X first acquired an additional 10% of the Computer Corp minority stock, alternatively, (x) for cash, (y) for X voting stock, or (z) by contributing property to Computer Corp.

(d) X owns only the computer business. A and B disagree on business strategy and want to divide the assets between them. The following alternative steps are taken:

(i) One half of the assets are transferred to Y Co. for all of its stock, which is then distributed to A in exchange for his X stock.

(ii) Suppose instead that X transfers its sales department to Y Co. in exchange for Y stock and distributes the Y stock equally to A and B.
(e) X has a 20-story building, wholly occupied by the cable and computer divisions, and, in the alternative:

(i) X transfers the building to Y Co. for Y stock which is then distributed ratably to A and B.

(ii) X transfers the building and computer assets to Y Co. for Y stock which is then distributed ratably to A and B.

(iii) Same as (i), except that the cable and computer divisions occupied only two floors of the building.

C. For purposes of this part of the problem, as in part B, assume that A and B each owns half of the X stock. Determine if there are any additional problems in the following circumstances.

(4) Suppose in question (2)(d) above that A acquired the X stock three years before the transaction.

(5) Suppose one year after the transaction in question (2)(g) above that either X or Y either acquire or are acquired by an unrelated corporation. What further facts do you need to know?

(6) P corporation (unrelated) desires to “acquire” the cable business, but not the computer business. On January 2, the following alternative transactions occur:

(a) X transfers the computer assets to Y Co. for all of its stock and distributes the Y stock equally to A and B; shortly thereafter, P Co. acquires all of the cable assets for $1,400 of its voting stock and X liquidates.

(b) Same as (a) except that X “merges” into P Co. (after spinning-off the computer business) pursuant to state law.

(c) Same as (a), except that, immediately after the computer spin-off, A and B transfer all of their X stock to P solely for P voting stock.

(d) X transfers the cable assets to Y Co. for all of its stock and then distributes the Y stock equally to A and B; shortly thereafter, Y Co. merges into P Co. under state law (with P the surviving company).

(e) X transfers the cable assets to Y Co. for all of its stock and then distributes the Y stock equally to A and B; shortly thereafter, A and B transfer all of their Y stock to P Co. solely for its voting stock.

(f) X transfers the cable assets to Y Co. for all of its stock and then distributes the Y stock equally to A and B; shortly thereafter, P Co. merges into Y (with Y the surviving company).