**Problem Set #3: Shareholder Transfers to a Controlled Corporation (Part II)**

1. Amy, an individual, forms a new business entity, Amy’s Air Conditioning Repair. Amy’s ACR is treated as a corporation for tax purposes. Amy contributes land to Amy’s ACR with a tax basis of $900 and a fair market value of $1000. Amy receives from Amy’s ACR $200 cash and $800 worth of Amy’s ACR’s common stock, representing 100% of Amy’s ACR’s only class of stock outstanding. How much, if any, gain or loss does Amy **realize** as a result of the exchange? How much, if any, gain or loss does Amy **recognize** as a result of the exchange?
2. Assume the same facts as question #1 except that Amy’s tax basis in the land was $700 rather than $900. In this case, how much, if any, gain or loss does Amy realize as a result of the exchange? How much, if any, gain or loss does Amy recognize as a result of the exchange?
3. Assume the same facts as question #1 except that Amy’s tax basis in the land was $1200 rather than $900. In this case, how much, if any, gain or loss does Amy realize as a result of the exchange? How much, if any, gain or loss does Amy recognize as a result of the exchange?
4. Max and Evan, two individuals, form ME, Inc., a new entity treated as a corporation for tax purposes. Max contributes land with a basis of $50 and a fair market value of $100. Evan contributes equipment with a basis of $50 and a fair market value of $100. Max receives 50 shares of newly issued voting common stock from ME, Inc. in exchange for the land. Evan receives 50 shares of newly issued nonvoting preferred stock from ME, Inc. in exchange for the equipment. The terms of the preferred stock provide for Evan to receive a fixed amount of dividend income (and no more) per year for each year that the preferred stock is outstanding. Furthermore, Evan has a right to require ME, Inc. to redeem the stock at any time, solely at Evan’s election, for an amount equal to $100 plus any accrued but unpaid dividends. Will Evan’s contribution of the equipment qualify for non-recognition under Section 351? Will Max’s contribution of the land qualify for non-recognition under Section 351?
5. Dreamworks, Inc. is an entity treated as a corporation for tax purposes. 10 shares of class A common stock issued by Dreamworks, Inc. (100% of the only class of stock outstanding) are owned by Fiona, an individual. Subsequently, Shrek, another individual, contributes land that is a capital asset to Dreamworks, Inc. Shrek has held the land for 2 years. The land has a fair market value of $100 and a basis of $70. Shrek receives from X in exchange for the land: (i) 90 shares of class A common stock (representing 90% of the total number of shares outstanding) with a fair market value of $90 and (ii) equipment held by Dreamworks, Inc. Dreamwork’s basis in the equipment is $5 and the fair market value of the equipment is $10.
   1. How much gain or loss, if any, does Shrek realize on the exchange?
   2. How much gain or loss, if any, does Shrek recognize on the exchange?
   3. What is Shrek’s basis in the stock received?
   4. What is Shrek’s holding period in the stock received?
   5. What is Shrek’s basis in the equipment?
   6. How much gain or loss, if any, does Dreamworks, Inc. recognize on the transaction?
   7. What are Dreamworks, Inc.’s basis and holding period in the land received by Dreamworks, Inc.?
6. Assume the same facts as set forth in question #5 except that the land has a basis of $130. Assuming no election is made under Section 362(e)(2)(C) answer questions a-g above.
7. Assume the same facts as set forth in question #5 except that the equipment has a basis of $15. Answer questions a-g above.
8. Leia, Luke, Han and Ben organize Force Corp. by transferring the following assets. Luke, Han and Ben have each held the property they contribute for 2 years:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Transfers to X | | Receives from X | |
|  | Basis | FMV | Shares (#, FMV = $1 per share) | Cash |
| Leia – cash | - | $10 | 10 | $0 |
| Luke – land (capital asset) | $50 | $80 | 80 | $0 |
| Han - inventory | $1 | $10 | 5 | $5 |
| Ben – building (capital asset) | $15 | $10 | 5 | $5 |

* 1. With regard to Leia, Luke, Han, Ben and Force Corp., determine (i) the amount of realized and recognized gain or loss and (ii) the applicable basis and holding period.
  2. How would the answers to the questions in (a) change if the facts were the same as originally described except that Luke transferred services worth $80 (and did not contribute any land)?
  3. How would the answers to the questions in (a) change if the facts were the same as originally described except that Luke transferred services worth $60 and a building held as a capital asset with a basis of $12 and a fair market value of $20 (and did not contribute any land)?
  4. How would the answers to the questions in (a) change if the facts were the same as originally described except that Luke’s transfer took place a year after the transfers of Leia, Han and Ben?
  5. How would the answers to the questions in (a) change if the facts were the same as originally described except that Ben’s transfer took place a year after the transfers of Leia, Luke and Han?
  6. How would the answers to the questions in (a) change if the facts were the same as originally described except that (i) Han’s transfer took place a year after the transfers of Leia, Luke and Ben and (ii) at the time of Han’s transfer, Luke purchased an additional 2 shares for $2?