**Problem Set #4: Shareholder Transfers of Encumbered Property to Controlled Corporation**

1. Adams, an individual, transfers to Revolution, Inc. (a newly formed entity treated as a corporation for tax purposes) property with a basis of $200 and a fair market value of $300, subject to a $50 nonrecourse liability. In exchange, Adams receives 100% of the only class of stock of Revolution, Inc. outstanding with a fair market value of $250. Assume Section 357(b) does not apply.
	1. **How much gain or loss, if any, is realized by Adams on the exchange?**
	2. **How much tax gain or loss, if any, is recognized by Adams on the exchange?**
	3. **What is Adams' basis in the stock of Revolution, Inc.?**
	4. **How much tax gain or loss, if any, is recognized by Revolution, Inc.?**
	5. **What is Revolution, Inc.’s basis in the property?**
2. Assume the same facts as in **question (1)** except that the amount of the nonrecourse liability is $250 and the fair market value of the stock received is $50.
	1. **How much gain or loss, if any, is realized by Adams on the exchange?**
	2. **How much tax gain or loss, if any, is recognized by Adams on the exchange?**
	3. **What is Adams' basis in the stock of Revolution, Inc.?**
	4. **How much tax gain or loss, if any, is recognized by Revolution, Inc.?**
	5. **What is Revolution, Inc.’s basis in the property?**
3. Assume the same facts as in **question (2)** except that 357(b) may apply, the debt was incurred by Adams shortly before contributing the property to Revolution, Inc., and Adams used the cash proceeds of the borrowing for purposes unrelated to the property.
	1. **How much gain or loss, if any, is realized by Adams on the exchange?**
	2. **How much tax gain or loss, if any, is recognized by Adams on the exchange?**
	3. **What is Adams' basis in the stock of Revolution, Inc.?**
	4. **How much tax gain or loss, if any, is recognized by Revolution, Inc.?**
	5. **What is Revolution, Inc.’s basis in the property?**
4. Jefferson, an individual, transfers to Declaration, Inc. (a newly formed entity treated as a corporation for tax purposes) the items of property described in the table that follows. In exchange, Jefferson receives 100% of the only class of stock of Declaration, Inc. outstanding with a fair market value of $50. Assume Section 357(b) does not apply.

|  |  |  |  |
| --- | --- | --- | --- |
| Asset | Jefferson’s Basis | Fair Market Value | Amount of Debt Encumbering Property |
| Land | $75 | $75 | $65 |
| Building | $15 | $100 | $85 |
| Equipment | $30 | $25 | $0 |

* 1. **How much tax gain and/or loss, if any, is recognized by Jefferson on the exchange with respect to each asset?**
	2. **What is Jefferson's basis in the stock of Declaration, Inc.?**
	3. **What is Declaration, Inc.’s basis in each item of property?**
1. Hamilton holds 10 shares of company Treasury, Inc. (a publicly-traded company) with a basis of 50 and a fair market value of 100. Burr holds 10 shares of company Tammany, Inc. (another publicly-traded company) with a basis of 150 and a fair market value of 100. Hamilton and Burr each contribute their shares to a newly formed entity (New Co.) treated as a corporation for tax purposes. In exchange, Hamilton and Burr each receive 100 shares of the only outstanding class of voting common stock of New Co. What amount of gain or loss (if any) is recognized by Hamilton and Burr on the exchange?
	1. **Would the answer change, and if so how, if instead Hamilton and Burr each held 5 shares of Treasury, Inc., with a basis of 25 and a fair market value of 50; and 5 shares of Tammany, Inc., with a basis of 75 and a fair market value of 50; and Hamilton and Burr each contributed their shares to New Co for 100 shares of newly issued New Co common stock?**