**Problem Set #10: Liquidation Problems**

1. An individual, Adam, owns 100% of the stock of a corporation, X. X, in turn, owns 100% of the stock of another corporation, Y. A originally formed X by contributing $300 cash, that X, in turn, contributed to form Y. Y acquired land using the $300 contributed by X. No events have transpired since the corporations were formed other than the fact that the value of the land increased to $1000. Therefore, Adam’s basis in the stock of X is $300. The X stock is worth $1000. X’s basis in the stock of Y is $300. The Y stock is worth $1000. Y’s basis in the land is $300, and the land is worth $1000.
   1. If Y distributes the land to X in liquidation of Y and X subsequently distributes the land to Adam in liquidation of X, how much tax gain or loss (if any) would be recognized by Y, X, and Adam *if Sections 331, 334(a) and 336 applied to both liquidations*? (Note: Sections 331 and 336 do not, in fact, apply to both liquidations. This is intended merely as a benchmark for evaluating the results under b)
   2. If Y distributes the land to X in liquidation of Y and X subsequently distributes the land to Adam in liquidation of X, how much tax gain or loss (if any) would be recognized by Y, X, and Adam under the law actually in effect?
2. An individual, Abby, owns 100% of the stock of a corporation, X. Abby originally formed X by contributing $300 cash to X. Abby’s basis in the stock in X was, and still is, $300. X used the $300 to buy 100% of stock in Y, an already existing corporation. X’s basis in the stock in Y was, and still is, $300. At the time X acquired Y stock, Y held land with a basis of $100 and a value of $300. Subsequent to the acquisition of the Y stock, the value of the land (and the value of the Y stock and the X stock) declined to $200. At a time when the value of the land is $200, Y’s basis in the land is $100, the value of the Y stock is $200, and X’s basis in the Y stock is $300, Y distributes the land to X in liquidation of Y, how much tax gain or loss, if any, will X and Y recognize and what will X’s basis in the land be immediately after the liquidation?
3. Y is a corporation for tax purposes. 90% of the stock of Y is owned by X, a corporation for tax purposes. 10% of the stock of Y is owned by Zeke, an individual. Y owns two assets: (i) Land with a fair market value of $900 and a basis of $400 and (ii) Equipment with a fair market value of $100 and a basis of $300. X’s basis in Y stock is $630, and Zeke’s basis in Y stock is $70. In complete liquidation, Y distributes 90% of the land and 90% of the equipment to X, and Y distributes 10% of the land and 10% of the equipment to Zeke.
   1. How much gain or loss, if any, is recognized by X, Y, and Zeke? What basis do X and Zeke take in the assets that they receive?