**Problem Set #2: Shareholder Transfers to a Controlled Corporation (Part I)**

1. Two individuals, Christy and Dee, form a new business entity, Veggie Heaven, as a Delaware corporation. Christy contributes a building to VH with a tax basis of $50,000 and a fair market value of $100,000. Dee agrees to work at Veggie Heaven for 10,000 hours for the next five years, and the Board of Directors (Christy and Dee) agree that the services have a fair market value of $100,000. Christy and Dee each receive 100 shares of voting common stock of Veggie Heaven, the only class of stock issued by VH. Does the contribution by Dee qualify for non-recognition under Section 351? Does the contribution by Christy qualify for non-recognition under Section 351?
2. **Does the contribution by Dee qualify for non-recognition under Section 351?**
3. **Does the contribution by Christy qualify for non-recognition under Section 351?**
4. Assume the same facts as problem #1 except that Dee, in addition to performing services with a fair market value of $100,000 contributes equipment with a fair market value of $100,000 and a tax basis of $50,000. Dee receives 200 shares of Veggie Heaven. Does the contribution by Dee of services qualify for non-recognition under Section 351? Does the contribution by Dee of equipment qualify for non-recognition under Section 351? Does the contribution by Christy of the building qualify for non-recognition under Section 351?
5. **Does the contribution by Dee of services qualify for non-recognition under Section 351?**
6. **Does the contribution by Dee of equipment qualify for non-recognition under Section 351?**
7. **Does the contribution by Christy of land qualify for non-recognition under Section 351?**
8. Assume the same facts as problem #1 except that Dee, in addition to performing services with a fair market value of $100,000 contributes equipment with a fair market value of $2000 and a tax basis of $1000. Dee receives 102 shares of Veggie Heaven. Does the contribution by Dee of services qualify for non-recognition under Section 351? Does the contribution by Dee of equipment qualify for non-recognition under Section 351? Does the contribution by Christy of land qualify for non-recognition under Section 351?
9. **Does the contribution by B of services qualify for non-recognition under Section 351?**
10. **Does the contribution by B of equipment qualify for non-recognition under Section 351?**
11. **Does the contribution by A of land qualify for non-recognition under Section 351?**
12. Assume that the facts in #1 are different and that Christy received class A common stock and Dee received class B common stock at the founding of Veggie Heaven. Three years after Christy and Dee form Veggie Heaven (and three years after the last time any contribution was made to the corporation), Christy contributes the land next door to the restaurant with a basis of $10,000 and a fair market value of $20,000 to VH in exchange for shares of class B common stock. After the contribution, Christy owns 100% of the class A common stock outstanding (the terms of which provide that (i) holders of class A common stock will collectively be entitled to 90% of the votes anytime shareholders vote and (ii) holders of class A common stock will collectively be entitled to 50% of distributions anytime the corporation makes a distribution), Christy owns 5% of the class B common stock (the terms of which provide that (i) holders of class B common stock will collectively be entitled to 10% of the votes anytime shareholders vote and (ii) holders of class B common stock will collectively be entitled to 50% of distributions anytime the corporation makes a distribution), and Dee owns the remaining 95% of the class B common stock.
13. **Does the contribution by Christy qualify for non-recognition under Section 351?**
14. Assuming the same facts as in #1, but Christy received class A common stock and Dee received class B common stock when Veggie Heaven was formed. Three years after the corporation was formed (and three years after the last time any contribution was made to the corporation), Christy contributes land with a basis of $10,000 and a fair market value of $20,000 to Veggie Heaven in exchange for 200 shares of class A nonvoting stock. After the contribution, A owns 100% of the class A common stock outstanding (the terms of which provide that (i) holders of class A common stock will collectively be entitled to 100% of the votes anytime shareholders vote and (ii) holders of class A common stock will collectively be entitled to 10% of distributions anytime the corporation makes a distribution), A owns 100% of the 200 shares outstanding of class A nonvoting stock (the terms of which provide that (i) holders will not be entitled to vote and (ii) holders of class A nonvoting stock will collectively be entitled to 20% of distributions anytime the corporation makes a distribution), and Dee owns 100% of the 10 shares of class B nonvoting stock (the terms of which provide that (i) holders will not be entitled to vote and (ii) holders of class B nonvoting stock will collectively be entitled to 70% of distributions anytime the corporation makes a distribution).
15. **Does the contribution by Christy qualify for non-recognition under Section 351?**
16. Assume Christy formed Veggie Heaven by herself and owns all 100 shares of voting common stock. Later, Christy contributes a secret formula for hummus to Veggie Heaven, which she bought from a famous chef. Christy’s tax basis in the secret formula is $5000 and the fair market value of the secret formula is $10,000. Veggie Heaven issues no shares of stock to A in exchange for the secret formula.

(a) **Will the contribution of the secret formula constitute a transfer of property “in exchange for stock” that qualifies for non-recognition under Section 351?**