

C: 2-6

- 1) Tax revenues increase when making corporate formation a taxable event.
- 2) Under the current system, taxpayers are prevented from recognizing losses which increase government revenues.

C: 2-40

- A) Since Karen and Larry receive only stock, they do not recognize any gain or loss. Joe only receives bonds and he recognized \$7000 in capital gain ($\$15000 - \8000) and does not qualify for treatment.
- B) Joe's bonds basis = \$15000
Karen's stock basis = \$18000
Larry's stock basis = \$25000
- C) Gray Corp. land basis = \$15000
Gray's equipment basis = \$18000
Gray inherited the \$10000 depreciation recapture potential due to Karen not recognizing an asset transfer gain.

C: 2-45

- A) Even though Ted recognizes no gain or loss, he still realizes that there is a \$70000 gain ($[\$60000 + \$35000 + \$15000] - [\$5000 + \$35000]$). Sec. 357 © (3) preclude Ted from recognizing a gain since his excess liability situation exceeds the \$40000 total bases of assets.
- B) Ted's received stock basis = \$25000 ($\$40000 - \15000). There are no required basis for liabilities assumed by the transferee corp. under section 357 © (3) or under section 358 (d) (2)
- C) The corp. basis in assets is the same as Ted's \$40000 basis (\$5000 in cash, zero in acct. rec., and \$35000 in equip.).
- D) The corp. has to recognize receivable income when it collects. Also, the current liabilities can be deducted by the corp. when it pays them.