

**C:6-8** In many cases, usually no because the two alternatives results are the same. A corporation's shareholders recognize the distributions gain or loss when a corporation recognizes its gains and losses, sells its assets, and pays its taxes. If the corporation's assets are distributed directly to the shareholders, it will still recognize gain or losses as if it sold its assets. Then the corporation would pay its taxes and distribute the remaining assets to its shareholders. Under the first alternative, the distributed assets FMV must be the same amount as the distributed cash. Since shareholders take a FMV basis in the distributed assets, shareholders recognize the same gain or loss. Shareholders do not recognize further gain or loss upon selling assets. The results may be different if the corporation under Sec 336(d) is subject to loss limitations upon property distribution to certain shareholders. The limitations of Sec 336 do not apply to direct sales by the corporation to outside third parties. Under Sec. 362(e)(2), a property's basis may have been reduced upon the corporation's contribution, which reduces a realized loss upon a distribution.

**C:4-34**

- a) A taxable dividend of \$48000 ( $\$56000 - \$8000$ ) is what is recognized by Dina.
- b) Dina's land basis is \$56000, its FMV.
- c) Sedgwick Corporation recognizes a \$16000 [ $(\$48000 \text{ net FMV} + \$8000 \text{ release from liability}) - \$40000$ ] capital gain distribution.
- d) Sedgwick's Earnings and Profits are increased by the \$16000 Earning and Profits gain, which is the lands excess of the FMV over its Earning and Profits adjusted basis. Earning and Profits are decreased by \$48000 ( $\$56000 \text{ FMV} - \$8000 \text{ mortgage}$ ) distribution net amount and by the \$5440 ( $0.34 \times \$16000$ ) of federal income taxes imposed on the gain, or the net reduction of \$37440.

**C:4-36**

- a) A dividend of \$170,000 ( $\$250000 \text{ FMV} - \$80000 \text{ mortgage assumed}$ ) is recognized by Calvin since Quick Corporation's Earning & Profits exceed the distributed amount.
- b) Calvin's building basis is \$250000.
- c) A gain of \$100,000 ( $\$250000 \text{ FMV} - \$150000 \text{ adjusted basis}$ ) is recognized by Quick for taxable income purposes. Since the building was used in Quick's business, \$6000 ( $\$30000 \times 0.20$ ) of the gain is recaptured ordinary income under Sec. 291. The remaining \$94000 ( $\$100000 - \$6000$ ) is a Sec. 1231 gain.
- d) A net decrease of \$114000 is determined by the following: Quick's Earnings and Profits is increased by the Earnings and Profits gain of \$90000 ( $\$250000 \text{ FMV} - \$160000 \text{ Earnings and Profits adjusted basis}$ ) and reduced by the \$170000 distribution net amount and by \$34000

(\$100,000 x 0.34) in federal income taxes on the recognized \$100,000 gain for taxable income purposes, which result in a net decrease of \$114,000.