CHAPTER 19

CORPORATIONS: DISTRIBUTIONS IN COMPLETE LIQUIDATION AND AN OVERVIEW OF REORGANIZATIONS

SOLUTIONS TO PROBLEM MATERIALS

Question/ Problem	Topic	Status: Present Edition	Q/P in Prior Edition
1	Corporate liquidation for tax purposes	Unchanged	1
2	Liquidations and redemptions compared; applicability of § 267	Unchanged	2
3	Related-party loss limitation in complete liquidation; disqualified property defined	New	
4	Tax consequences to shareholder in complete liquidation; use of installment method to report gain	Unchanged	4
5	Liquidation of subsidiary; general requirements	Unchanged	5
6	Tax consequences in liquidation of subsidiary when minority interest is involved	Unchanged	6
7	Liquidation of subsidiary; indebtedness to parent	Unchanged	7
8	Liquidation of subsidiary; tax consequences to parent and subsidiary	Modified	8
9	Requirements for application of § 338	Unchanged	9
10	Tax consequences of a § 338 election	Unchanged	10
11	Reason for decline in mergers	Unchanged	11
12	Similarities of reorganizations and like-kind exchanges	Unchanged	12
13	Recognition and deferral of gain on reorganization	Unchanged	13
14	Issue ID	Unchanged	14
15	Liquidations and redemptions compared; recognition of losses by corporation and shareholder	Unchanged	15
16	Complete liquidation; distribution of property subject to liability	Modified	16
17	Complete liquidation; sale of loss property	Unchanged	17

Question/ Problem	Topic	Status: Present Edition	Q/P in Prior Edition
18	Complete liquidation; sale of built-in loss property	Unchanged	18
19	Complete liquidation; distribution of disqualified property to related parties	Unchanged	19
20	Complete liquidation; application of related-party loss limitation	Unchanged	20
21	Complete liquidation; disqualified and built-in loss property	Unchanged	21
22	Complete liquidation; tax consequences to shareholder when installment notes distributed	Modified	22
23	Liquidation of subsidiary; distribution of loss property to minority shareholder	Unchanged	23
24	Liquidation of subsidiary; indebtedness of subsidiary to parent	Modified	24
25	Liquidation of subsidiary; tax consequences to subsidiary and parent	Unchanged	25
26	Nonapplicability of § 332 to an insolvent subsidiary	Unchanged	26
27	When not to make the § 338 election	Unchanged	27
28	Nature of gain recognized by shareholder	Unchanged	28
29	Effect on basis when gain recognized	Unchanged	29
30	Gain recognition and basis computation	Unchanged	30

CHECK FIGURES

15.a. Hawk no loss recognized; Michele no loss recognized and basis of $180,000

15.b. Hawk no loss recognized; Michele $40,000 loss recognized and basis of $180,000.

16.a. $600,000 LTCG.

16.b. $700,000 LTCG.

17. $20,000.

18. $15,000.

19. $0.

20. Pink should either distribute the land to Paul or sell it and distribute the cash.

21. Pink should either distribute the land to Paul or sell it and distribute the cash.

22. Helen must recognize $75,000 of gain in the year of liquidation.

23. Magenta no gain or loss recognized; Fuchsia no gain or loss recognized and basis of $620,000; Marta $20,000 gain recognized and basis of $50,000.

24. Green recognizes no loss; Orange recognizes $30,000 gain.

25.a. $0.

25.b. $0.

25.c. $900,000.

25.d. Carry over to Cardinal.

26. Section 332 does not apply; ordinary loss allowed.

27.a. Yes.

27.b No

28. $20,000 dividend and $10,000 capital gain.

29.a. $20,000 dividend and $10,000 capital gain. Stock basis $100,000, bond basis $60,000, and land basis $20,000.

29.b. Nontaxable to Redbird. Bluebird's basis $900,000.

30.a. Rosa's basis $60,000; Arvid's basis $155,000.

30.b. Pine's gain $25,000; Lodgepole gain $0.

DISCUSSION QUESTIONS

1. For tax purposes, a corporate liquidation exists when a corporation ceases to be a going concern. The corporation continues solely to wind up affairs, pay debts, and distribute any remaining assets to its shareholders. Retention of a nominal amount of assets to pay remaining debts and preserve legal status will not defeat liquidation status. Legal dissolution under state law is not required for a liquidation to be complete for tax purposes. pp. 19-2 and 19-3

2. Section 267 disallows losses realized in transactions between related parties (e.g., corporation and a 50% shareholder). The provision applies in the case of a qualifying stock redemption, *but not* in the case of a liquidation. p. 19-4

3. Disqualified property is property that is acquired by the liquidating corporation in a § 351 transaction or as a contribution of capital during the 19-year period ending on the date of the distribution. pp. 19-5 and 19-6

4. The general rule under § 331 provides for sale or exchange treatment to the shareholder. The shareholder is treated as having sold his or her stock to the corporation being liquidated. Thus, the difference between the fair market value of the assets received from the corporation and the adjusted basis of the stock surrendered is the gain or loss recognized. Typically, the stock is a capital asset in the hands of the shareholder and capital gain or loss results. The basis for property received in a liquidation is the property's fair market value on the date of the distribution.

   A shareholder's gain on the receipt of installment notes obtained by a liquidating corporation on the sale of its assets may be deferred to the point of collection under § 453(h). The shareholder must allocate stock basis among the various assets received from the corporation. With respect to the notes received, the shareholder may defer gain until the notes are collected.

   p. 19-9 and Example 13

5. a. The date of the adoption of a plan of complete liquidation is crucial in determining whether § 332 applies. The parent corporation must own 80% or more of the subsidiary's voting stock and 80% or more in value of all its other stock (other than nonvoting preferred) at the time the plan of liquidation is adopted (and until all property is distributed), or the liquidation will not qualify under § 332.

   b. The period of time in which the corporation must liquidate also is crucial in determining whether § 332 applies. The subsidiary must distribute all its property in complete redemption of all its stock within the taxable year in which the first distribution is made or within three years from the close of the tax year in which the first distribution occurred pursuant to the adoption of a plan by the corporation. Otherwise, the liquidation will not qualify under § 332.

   c. The subsidiary must be solvent, or § 332 will not apply. If the subsidiary is insolvent, the parent corporation will have a deductible ordinary loss for its worthless stock in the subsidiary.

   pp. 19-10, 19-11, and Footnote 13

6. The nonrecognition provisions apply to liquidating distributions to the parent corporation. For a distribution to a minority shareholder, however, gain *but not* loss is recognized by the subsidiary. From the subsidiary's perspective then, distributions to minority shareholders are treated the same as nonliquidating distributions. p. 19-11

7. When § 332 applies, the subsidiary does not recognize gain or loss upon the transfer of property to the parent. This is the case even if the transfer satisfies a debt. The parent corporation may recognize a gain or loss on the receipt of property in satisfaction of indebtedness, however. Examples 15 and 16

8. Condor will recognize no gain or loss and will have a carryover basis of $900,000 in Dove's assets. Condor acquires any of Dove's tax attributes (e.g., net operating loss carryover). Condor's basis in the Dove stock disappears. Dove recognizes no gain or loss on the liquidation. pp. 19-10 and 19-12

9. For § 338 to apply, the parent must "purchase" within a 12-month period at least 80% of the voting power and at least 80% of the value of the acquired corporation. "Purchase" is defined by § 338(h)(3) to include all acquisitions of stock except the following: (1) a transaction where basis of the stock is the same as in the hands of the transferor, (2) an acquisition of stock by inheritance, (3) a transaction where § 351 applies, and (4) an acquisition of stock from a related party where ownership of the stock would have been attributed to the transferee under § 318. The acquiring corporation must then make the § 338 election by the 15th day of the ninth month following the "qualified stock purchase." p. 19-13

10. Upon a § 338 election, the subsidiary is treated as having sold its assets on the date of the qualified stock purchase. The deemed selling price is determined with reference to the parent's basis in the subsidiary stock plus liabilities of the subsidiary. The subsidiary recognizes gain (or loss) as a result of the deemed sale. Then, as of the day following the qualified stock purchase date, the subsidiary is treated as a new corporation that purchased those same assets for a similarly computed amount. The deemed purchase of the assets thus results in a stepped-up (or -down) basis in the assets. Since the subsidiary is treated as a new corporation, its tax attributes (e.g., E & P) start anew as of such date. If the subsidiary is liquidated, it recognizes no gain (or loss) as a result of the liquidation (except for gain on distributions to minority shareholders).

    The parent corporation incurs no gain (or loss) as a result of the § 338 election, and it retains its basis in the subsidiary stock. If, however, the subsidiary is liquidated, the subsidiary stock basis disappears and the parent takes the stepped-up (or -down) basis in the assets acquired. The parent recognizes no gain (or loss) on the liquidation.

    pp. 19-13 and 19-14

11. The economic downturn in 2001 has caused a slowdown in mergers and acquisitions. U.S. restructuring transactions over $5 million are expected to be down more than 25 percent and the value of these deals was down by at least 50 percent. p. 19-14

12. The transaction receiving similar tax treatment to that of corporate reorganizations is like-kind exchanges. The tax treatments are similar in that both transactions permit the current nonrecognition of realized gain. If boot is present, gain may be recognized under both types of transactions. Any realized but unrecognized gain is postponed until a future taxable event occurs. The vehicle for the postponement of gain is the basis in the new asset received. Thus, a reorganization is essentially treated as a nontaxable exchange of like-kind ownership of a corporation. p. 19-17

13. Yes, it possible for both the acquiring and the target corporation to recognize gain in a § 368 reorganization. The acquiring corporation will recognize gains when it transfers appreciated assets to the target. The target recognizes gain if it does not distribute to its shareholders the assets received from the acquiring corporation, or if it distributes its own appreciated assets to its shareholders. In addition, if the assets received from the acquiring corporation have appreciated prior to the distribution to the target's shareholders, then gain must be recognized. It is not possible, however, for either the acquiring or target corporation to recognize losses on the § 368 reorganization. No, it is not possible for corporations to permanently avoid the tax on the transaction. The gain is merely deferred rather than forgiven. The computation of the shareholder's basis in the stock received in the reorganization guarantees that any gain not recognized at the time of the reorganization is deferred until the shareholder's next transaction involving this stock. pp. 19-17 to 19-19

14. Some tax issues to consider are listed below. This should *not* be considered an exhaustive list of possible issues.

- What is Channel's basis in her Fern stock?
- What is Channel's basis in her Ivy Stock?
- Is the receipt of the bond considered boot by Channel?
- Does a portion of the transaction qualify for stock redemption treatment?
    - If yes, what is the amount of capital gain Channel will recognize?
- Will the transaction qualify as a "Type A" merger?
    - Did Ivy assume all of Fern's liabilities?
    - Were all state law requirements met?
    - Is the continuity of interest test met, that is, what did the other Fern shareholders receive?
- Could the reorganization meet the requirements of a "Type C" reorganization?
- Will either Fern, Channel, or Ivy be required to recognize gain on the transaction?

pp. 19-17 to 19-21

PROBLEMS

15. a. No loss is recognized by either Hawk Corporation or Michele. In the case of Hawk, the $20,000 loss realized [$180,000 (fair market value) – $200,000 (basis)] on the nonliquidating distribution of the land is disallowed under § 311(a). (Note: Hawk Corporation's loss also would be disallowed under § 267.) As to Michele, her $40,000 loss realized [$180,000 (fair market value of land) – $220,000 (stock basis)] in the qualifying stock redemption is disallowed under § 267 because Michele and Hawk Corporation are related parties. Under that provision, Michele is deemed to own the stock of her sisters, or 100% of the Hawk stock in total. Her basis in the land is its fair market value, or $180,000.

b. Hawk Corporation recognizes no loss and Michele recognizes a $40,000 loss. In the case of Hawk, the $20,000 loss realized on the liquidating distribution of the land is not recognized under the related-party loss limitation of § 336(d)(1). The distribution of the land to Michele, a related party (under § 267), is not pro rata with respect to the shareholders. As to Michele, her $40,000 loss is recognized. Section 267 does not apply in the case of liquidating distributions. Her basis in the land is its fair market value, or $180,000.

pp. 19-3, 19-4, 19-9, and Example 2

16. a. Oriole Corporation would have recognized gain of $600,000 [$900,000 (fair market value) – $300,000 (basis)]. Under the general rule of § 336(a), the land is treated as if it were sold for its fair market value. Since the land was a capital asset held for more than one year, Oriole has a $600,000 long-term capital gain.

b. Oriole Corporation has a recognized long-term capital gain of $700,000 on the distribution. Under § 336(b), when property distributed in a complete liquidation is subject to a liability of the liquidating corporation, the fair market value of that property is treated as not being less than the amount of the liability. Thus, the $300,000 adjusted basis in the land is subtracted from the $1 million liability for a gain of $700,000.

Example 3 and Chapter 16

17. A loss of $20,000 is recognized. Because the fair market value of the land exceeded its basis at the time of the § 351 exchange, the built-in loss limitation does not apply. Further, the related-party loss limitation does not apply to a *sale* of property. The realized loss of $20,000 [$280,000 (selling price) – $300,000 (carryover basis)] is, therefore, fully recognized. pp. 19-4 to 19-7 and Figure 19-1

18. A loss of $15,000 is recognized. The land was built-in loss property when it was acquired in the § 351 exchange. Further, the sale of the land occurred within 2 years of the exchange; thus, a tax avoidance purpose is presumed to exist. The realized loss of $20,000 [$280,000 (selling price) – $300,000 (carryover basis)] is disallowed to the extent of the $5,000 built-in loss [$295,000 (fair market value) – $300,000 (basis)]. Therefore, the recognized loss is $15,000 ($20,000 – $5,000). The 2-year presumption rule can be overcome and all of the loss recognized if there is a clear and substantial business relationship between the contributed land and Gray's business. The related-party loss limitation does not apply to a *sale* of property. Example 8 and Figure 19-1

19. No loss is recognized. The land is disqualified property that is distributed to a related party (both Arnold and Beatrice are considered 100% shareholders under the § 267 attribution rules). Thus, the related-party loss limitation applies and none of the realized loss of $20,000 [$280,000 (fair market value) – $300,000 (carryover basis)] is recognized. Example 7 and Figure 19-1

20. a. If Pink Corporation distributes all the land to Maria, none of the $1,200,000 loss realized [$600,000 (fair market value) – $1,800,000 (basis)] on the distribution will be recognized since Maria is a related party and the land is disqualified property.

b. If all the land is distributed to Paul, Pink Corporation will have a recognized loss of $1,200,000. The land was valued at more than its basis on the date of the transfer to Pink; thus, the built-in loss limitation does not apply. Because Paul is an unrelated party, the related-party loss limitation does not apply.

c. Even though the distribution is pro rata, the property is disqualified property; thus, the loss on the distribution to Maria, a related party, would be disallowed. Of the $1,200,000 loss, 20% (Paul's interest), or $240,000, would be allowed. For the reasons noted in option b. above, the loss limitations do not apply to the distribution to Paul.

d. In this case, 50% of the $1,200,000 realized loss, or $600,000, would be disallowed. The property is disqualified property; thus, the loss on the distribution to Maria, a related party, would be disallowed. The remaining $600,000 loss will be recognized. For the reasons noted in option b. above, the loss limitations do not apply to the distribution to Paul.

e. Because the property does not have a built-in loss on the date of the transfer to the corporation, the built-in loss limitation does not apply. Further, the related-party loss limitation does not apply to a *sale* of property. Upon the sale, Pink Corporation would recognize the entire $1,200,000 loss.

Pink Corporation should either distribute the land to Paul (option b.) or sell it and distribute the cash (option e.).

pp. 19-4 to 19-7 and Figure 19-1

21. a. The answer would not change. The land is disqualified property that is distributed to a related party; thus, the entire $1,200,000 loss realized is disallowed under the related-party loss limitation.

b. The property had a built-in loss of $300,000 [$1,500,000 (fair market value) – $1,800,000 (basis)] when it was transferred to Pink Corporation. Further, the transfer occurred within 2 years of the date the plan of liquidation was adopted. Unless Pink can rebut the presumption of a tax avoidance purpose for the transfer, the built-in loss of $300,000 is disallowed. The remaining $900,000 loss will be recognized. Because Paul is an unrelated party, the related-party loss limitation does not apply to a distribution to him. If Pink Corporation can establish a business reason for the transfer of the property to the corporation and rebut the 2-year presumption rule, the entire $1,200,000 loss would be recognized.

c. The loss on the property distributed to Maria, or $960,000, will be disallowed entirely because it is a distribution of disqualified property to a related party. Unless Pink Corporation can rebut the presumption of a tax avoidance purpose for the transfer, an additional $60,000 of the loss [$300,000 (built-in loss) X 20% (Paul's distribution)] will be disallowed. As a result, $180,000 of the loss will be recognized [$900,000 (post-transfer loss) X 20% (Paul's distribution)]. If Pink Corporation can rebut the 2-year presumption rule, $240,000 of loss would be recognized [$1,200,000 (total loss) X 20% (Paul's distribution)].

d. The loss on the distribution of disqualified property to Maria, or $600,000, will be disallowed. Of the remaining $600,000 loss, 50% of the built-in loss of $300,000, or $150,000, will be disallowed unless Pink Corporation can demonstrate a business purpose for the transfer. If Pink can rebut the 2-year presumption rule, $600,000 of the loss, or the portion pertaining to the distribution to Paul, would be recognized.

e. If Pink Corporation cannot show a business purpose for the transfer, the built-in loss of $300,000 would be disallowed. The remaining $900,000 loss would be recognized. If Pink can rebut the 2-year presumption rule, the entire $1,200,000 loss would be recognized. The related-party loss limitation does not apply to a *sale* of property.

Pink Corporation should either distribute the land to Paul (option b.) or sell it and distribute the proceeds (option e.).

pp. 19-4 to 19-7 and Figure 19-1

22. The tax results of these transactions to Helen are as follows:

- Helen may defer gain on the receipt of the notes to the point of collection under the installment method.

- Helen must allocate her $100,000 basis in the Purple Corporation stock between the cash and the installment notes. Using the relative fair market value approach, 25% [$100,000 (amount of cash) ÷ $400,000 (total distribution)] of $100,000 (basis in the stock), or $25,000, is allocated to the cash, and 75% [$300,000 (FMV of the notes) ÷ $400,000 (total distribution)] of $100,000 (basis in the stock), or $75,000, is allocated to the notes.

- Helen must recognize $75,000 [$100,000 (cash received) – $25,000 (basis allocated to the cash)] in the year of the liquidation.

- Since Helen's gross profit on the notes is $225,000 [$300,000 (FMV of notes) – $75,000 (basis allocated to the notes)], the gross profit percentage is 75% [$225,000 (gross profit) ÷ $300,000 (FMV of notes)]. Thus, Helen must report a gain of $45,000 [$60,000 (amount of annual payment) X 75% (gross profit percentage)] on the collection of each note over the next five years.

- The interest element is accounted for separately.

Example 13

23. Magenta recognizes no gain on the distribution of assets to Fuchsia, its parent corporation. The land distribution to Marta results in a $25,000 nonrecognized loss [$50,000 (fair market value) – $75,000 (basis)] to Magenta.

Fuchsia recognizes no gain or loss in the liquidation, and it has a carryover basis of $620,000 in the assets received. Magenta's tax attributes (e.g., E & P) carry over to Fuchsia. Fuchsia's basis in the Magenta stock disappears.

Marta recognizes a $20,000 gain [$50,000 (amount realized) – $30,000 (basis of stock)] in the liquidation, and she has a basis in the land of $50,000.

Concept Summary 19-1

24. Green Corporation recognizes no loss on the transfer of the land to satisfy its indebtedness to Orange Corporation. Transfers by a subsidiary corporation pursuant to a § 332 liquidation are subject to the nonrecognition rules of § 337. Orange Corporation, however, must recognize a gain of $30,000 [$600,000 (fair market value of the land) – $570,000 (basis in the bonds)]. Examples 15 and 16

25. a. Wren Corporation recognizes no gain (or loss) on its liquidation under § 337. The liquidation meets the requirements of § 332. (Since the Wren stock was acquired three years ago, a § 338 election is not available to Cardinal.)

b. Cardinal Corporation recognizes no gain (or loss) on the liquidation under § 332.

c. Cardinal Corporation takes a carryover basis in the assets, or $900,000. Cardinal's basis in the Wren stock disappears.

d. Cardinal Corporation acquires Wren Corporation's E & P of $500,000 and net operating loss carryover of $120,000 under § 381.

pp. 19-10 and 19-12

26. Willis, Hoffman, Maloney, and Raabe, CPAs
5191 Natorp Boulevard
Mason, OH 45040

October 13, 2003

Quail Corporation
1010 Cypress Lane
Community, MN 55166

Dear President of Quail Corporation:

This letter is in response to your question as to the tax consequences to Quail Corporation if it liquidates its wholly owned subsidiary, Sparrow Corporation. Our conclusion is based on the facts as outlined in your October 5 letter. Any change in facts may cause our conclusion to be inaccurate.

Because Sparrow Corporation is insolvent (its liabilities exceed the value of its assets), Quail Corporation would have an ordinary loss deduction for its worthless stock in Sparrow Corporation. The loss to Quail would be measured by the fair market value of Sparrow's net assets less Quail's basis in the Sparrow stock.

Should you need additional information or need to clarify our conclusion, do not hesitate to call on me.

Sincerely,

Larry C. Williams, CPA
Partner

TAX FILE MEMORANDUM

DATE: October 8, 2003

FROM: Larry C. Williams

SUBJECT: Quail Corporation

Today I talked to the President of Quail Corporation with respect to his October 5 letter. Quail Corporation is considering liquidating its wholly owned subsidiary Sparrow Corporation and wants to know the tax consequences upon a liquidation of Sparrow Corporation.

At issue: What are the tax consequences of a liquidation of a wholly owned subsidiary when the subsidiary is insolvent?

Conclusion: Because Sparrow Corporation is insolvent, § 332 would not apply to the liquidation. Quail Corporation would have an ordinary loss deduction for its worthless stock in Sparrow Corporation under § 165(g)(3).

p. 19-10 and Chapter 17

27. a. Because Canary purchased 80% or more of Falcon's stock within a 12-month period, it could make a § 338 election. Since the qualified stock purchase date was January 1, 2003, the § 338 election must be made by October 15, 2003. If made, the election is irrevocable. p. 19-13

b. Canary Corporation should not elect § 338. If § 338 is elected, Falcon's assets (regardless of whether Falcon Corporation is liquidated) would receive a stepped-down basis. Falcon Corporation would recognize a loss on the deemed sale of its assets; however, the loss probably could not be utilized since Falcon undoubtedly has had tax losses, rather than taxable income, in the past. Further, since Falcon would be treated as a new corporation as a result of the § 338 election, any loss carryovers (e.g., NOL) would disappear. pp. 19-12 to 19-15

28. Kamiak realizes a gain on the transaction of $80,000 computed as follows. $120,000 stock + $30,000 cash – $70,000 basis = $80,000 realized gain. Kamiak recognizes gain to the extent of the $30,000 cash received. Of this gain, $20,000 is taxed as a dividend [($200,000 E & P) X (10% ownership interest)] and $10,000 is treated as capital gain. This transaction will not qualify as a stock redemption under § 302(b)(2) because the ownership does not change by more than 20% when the cash is distributed. If Kamiak had received all stock ($150,000) in the reorganization, he would have received 5% of Bear Corporation. A decline from 5% to 4% due to the cash distribution of $30,000 is not more than a 20% decrease in ownership. pp. 19-18 and 19-19 and Example 22

29. a. Quinn recognizes gain to the extent he receives boot in the exchange. For the stock, Quinn has a basis of $100,000 with a fair market value of $300,000 ($280,000 + $20,000); thus, his realized gain is $200,000. He recognizes gain to the extent of the value of the land (boot) or $20,000. Since Quinn's proportionate share of Redbird's earnings and profits is greater than $20,000 (20% X $150,000 = $30,000), his gain is ordinary dividend income. Quinn's gain on the bond is equal to the principal amount of the bond received less the debt principal relinquished, in this case, $10,000 ($60,000 – $50,000). Assuming no interest in arrears, the bond gain is capital. Thus, Quinn's basis in his stock is $100,000, the bond is $60,000, and his basis in the land is $20,000.

b. Since Redbird distributes all stock and assets it received in exchange for its assets, Redbird recognized no gain on the reorganization. Bluebird's basis in Redbird's assets is a carryover basis of $900,000.

pp. 19-18 and 19-19

30. a.

	Rosa	Arvid
Basis of stock in Pine	$60,000	$190,000
Plus: gain recognized	20,000	
Less: boot received	(20,000)	(35,000)
Basis of stock in Lodgepole	$60,000	$155,000

Concept Summary 19-3

Thus, Arvid's basis in the new stock is $155,000, and his basis in the land is $35,000. Rosa's basis in the new stock is $60,000.

b. Rosa recognizes gain to the extent of cash she received ($20,000). The gain will be a dividend to the extent of her proportionate share of Pine's E & P. The distribution will not qualify as a redemption under § 302(b)(2). Rosa's ownership if she received all stock would have been 23% ($120,000/$520,000). Her ownership after receiving the $20,000 of cash is 20% ($100,000/$500,000). Rosa's ownership did not decrease by more than 20% (3% ÷ 23% = 13%). Arvid has a realized loss of $10,000 that is not recognized. Pine Corporation recognizes a gain of $25,000 on the distribution of the land to Arvid computed as: $35,000 FMV – $10,000 basis = $25,000 gain. Lodgepole recognizes no gain or loss on the reorganization.

Concept Summary 19-2 and Examples 23 and 24