1973

Corporate Reorganizations: Final Examinations (May 1973)

William & Mary Law School

CORPORATE REORGANIZATIONS
Professor Llewellyn

Final Examination
May, 1973

Question I — 30 Minutes

X Co. is owned 100% by A, an individual. X has assets with a gross value of $1,200 and an adjusted basis of $900. X has liabilities of $200 and earnings and profits of $300. A's basis for his X stock is $700.

P Co. is a publicly held corporation whose stock is listed on a national exchange. S Co. is a wholly owned subsidiary of P. P's basis for its stock in S is $100.

The following transaction took place on 1/2/72:

In a transaction which qualifies as a "statutory merger" under applicable local law, S acquires all the assets of X (and assumes all its liabilities) in exchange for $900 worth of its voting stock and $100 of P's nonvoting stock in the transaction.

(a) Does the above qualify as a reorganization? Explain in detail.

(b) Suppose the acquisition was for $1,000 of P's voting stock and the assumption by P of X Co.'s liability.

Question II — 60 Minutes

A and B each own 50% of the stock of X Company. A's basis for his stock is $800 and B's basis is $1200. X Co. is engaged in two lines of business (and has been so engaged for the last 5 years unless the facts specify otherwise): the manufacture and sale of electronic equipment (Electro); and the manufacture and sale of air conditioners (Airco). Assume further that: the assets of each division have a fair market value of $1000; the assets of each division have an adjusted tax basis of $500; separate records have been kept for each business; all assets are readily allocable to the respective businesses; no liabilities exist; and there are accumulated earnings of $1000.

P Corporation desires to "acquire" the Airco business, but not the Electro business. On January 2, 1972, the following transactions occur:

X transfers the Electro assets to Y Co. for all of its stock and distributes the Y stock equally to A and B; shortly thereafter (and as a part of a prearranged plan), P. Co. acquires the X stock from A and B solely for P voting stock. Immediately after acquiring the stock, P. Co. liquidated the X Co.

What are the tax consequences to A, B, and P Co.?

Question III — 60 Minutes

X Co. is a closely held corporation with 100 shares of common stock outstanding, owned 50 shares by A (basis $200), 30 by B (basis $400), and 20 by C (basis $150). X has the following assets:

	Basis	Value
Nonoperating Assets	$200	$300
Operating Assets	700	900
Total	$900	$1200

X has outstanding liabilities of $200 (in the form of 20-year debenture bonds), and accumulated earnings of $400. P Company is a publicly held corporation (whose stock is listed on the New York Stock Exchange).

What are the principal tax consequences to X, A, B, and P from the following transaction:

On 1/2/72, X transferred all its assets to P for $40 of "short-term" notes, assumption of X's $200 of liabilities and P voting stock worth $960. X liquidates and transfers to: A-40 short-term notes; B-stock worth $300, C-stock worth $200, and P-stock worth $460.

Question IV 30 Minutes

In the various alternative transactions considered below, the following general facts may be assumed: S Co. is a bona fide operating company, having assets with a basis of $700 and a value of $1000 (no liabilities); P Co. is a publicly held operating corporation, whose stock is listed on a national exchange; A is an individual.

(1) P owns 70% of S (which stock was acquired 10 years earlier for $20) and A owns 30% of S (basis $10).

(a) Pursuant to a plan of reorganization, S transfers all its assets to P solely in exchange for voting stock of P; shortly thereafter, and as part of the plan, S liquidates, distributing 70% of its assets to P and 30% to A (which assets consisted solely of P stock). What results to A, S and P?

(b) Suppose instead that S merges into P pursuant to state law?