



inventory. §1.334-1. (Sec. 601.105, S.P.R.; Sec. 334, '86 Code.)

Rev. Proc. 77-12, 1977-1 C.B. 569.

**346.3 Acquiring corporation; carrybacks.** A corporation acquired all the assets and continued operating the business of its subsidiary in a transaction constituting a liquidation under section 332(a) and falling within the description of a mere change in identity, form, or place of organization as set forth in section 368(a)(1)(F). *Held*, the corporation was not prohibited by section 381(b)(3) from carrying back net operating losses or unused investment credit for years after the transaction to years of its former subsidiary prior to the transaction. (Secs. 332, 368, 381; '86 Code.)

Eastern Color Printing Co., 63 T.C. 27, Acq., 1975-2 C.B. 1.

**346.4 Acquiring corporation; foreign expropriation loss; election.** An acquiring corporation in a complete liquidation qualifying under section 332(a) is entitled to elect to carry forward for ten years certain foreign expropriation losses, even though the losses were incurred by the distributor corporation prior to the liquidation. The provisions of section 172(b)(3)(1) apply to the distributor corporation. §1.172-11. (Sec. 172, '86 Code.)

Rev. Rul. 66-169, 1966-1 C.B. 54.

**346.5 Acquiring corporation; lack of control; reorganization.** The liquidation of the taxpayer's predecessor and the transfer of its assets to the taxpayer was accomplished through a number of interdependent steps and transactions. At the beginning, one group owned 93 percent of the outstanding stock of the predecessor corporation and the second group owned 7 percent. At the end, an unrelated third group owned 75 percent and the second group owned 25 percent. *Held*, there was no reorganization and the basis of the assets acquired is the cost to the corporation. (Sec. 112(g), '39 Code; Sec. 368, '86 Code.)

Southwell Combing Company, 30 T.C. 487, Acq., 1959-2 C.B. 7.

**346.6 Acquiring corporation; lack of control; reorganization.** A transaction between two corporations wherein one, the majority stockholder (but less than 80 percent) of the second, acquires all of the assets of the second in exchange for its common stock after which it was liquidated, is not a reorganization. The minority stockholders effected a taxable exchange and a taxable gain or loss resulted to the acquiring corporation upon liquidation of the acquired corporation. Distinguished by Rev. Rul. 57-278 which provides that this ruling is applicable only in those cases in which the ultimate transferee acquires some of the assets through liquidation. §§39.112(g)-1, 39.115(c)-1. (Secs. 112(g), 115(c), '39 Code; Secs. 331, 368, '86 Code.)

Rev. Rul. 56-396, 1954-2 C.B. 147.

**346.7 Assignment of income in stockholders.** Assets distributed to shareholders by a cash basis corporation under a plan of liquidation included rights in certain motion picture photoplays and rights to receive specified amounts of income from those photoplays. The right to the income had become indefeasibly vested, but was payable and paid in the two following tax years during which the corporation remained in existence and filed returns. *Held*, such income was not reportable by the corporation for the year in which it made the assignment to its stockholders. (Sec. 446, '86 Code.)

Sol C. Siegel Productions, Inc. 46 T.C. 15, Acq., 1967-1 C.B. 3.

**346.8 Association taxable as corporation; classification change.** An organization, which was classified as an association taxable as a corporation under regulations applicable to taxable years beginning prior to 1961, will not be deemed to have been liquidated solely because it is not so

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**346.1 Acquiring corporation; accelerated depreciation of building.** A corporation may be permitted to change to an accelerated method of depreciating a building which it acquired from a subsidiary in a section 381 transaction if the "original use" requirement was satisfied while the building was in the hands of the subsidiary. §§1.167(c)-1, 1.381(c)(6)-1, 1.446-1. (Secs. 167, 381, 446; '86 Code.)

Rev. Rul. 66-345, 1966-2 C.B. 67.

**346.2 Acquiring corporation; basis of inventory.** Guidelines describe methods that may be used by taxpayers and the Service in determining the fair market value of inventory acquired by a corporation in the liquidation of a subsidiary or in a lump sum purchase of business assets including

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classified under regulations applicable to taxable years beginning after 1960. §§1.331-1, 301.7701-2. (Secs. 331, 7701; '86 Code.)

Rev. Rul. 63-107, 1963-1 C.B. 71.

**346.9 Bankrupt; assets distributed to creditors.** Where all available cash resulting from the sale of a bankrupt corporation's assets is distributed to creditors, any gain from such sale will not receive the benefits of section 337, inasmuch as there will be no distribution of assets to shareholders. Modified to remove any implication that non-recognition of gain or loss to the corporation will apply only if the liquidating distribution results in a tax at the shareholder level. §1.337-2. (Sec. 337, '86 Code.)

Rev. Rul. 56-387, 1956-2 C.B. 189; Rev. Rul. 73-264, 1973-1 C.B. 178.

**346.10 Basis; affiliated corporations; stock ownership requirement.** In a transaction in which the members of an affiliated group of corporations purchased for cash all outstanding stock of a corporation whose assets were distributed to the members during the same year in a liquidation to which section 332 applies, each member will satisfy the stock ownership requirement of section 334(b)(2)(B), by virtue of reg. 1.1502-34 even though no member owns 80 percent of the stock. §§1.334-1, 1.1502-31, 1.1502-34. (Secs. 334, 1502; '86 Code.)

Rev. Rul. 74-441, 1974-2 C.B. 105.

**346.11 Closely-held corporations; existence of plan.** A closely held corporation sold its only asset to a purchaser who refused to buy the corporation stock. Within 12 months the stock holders withdrew the sale proceeds. *Held*, a plan of complete liquidation was adopted prior to the sale, and gain was not recognized by the corporation. (Sec. 337, '86 Code.)

Alameda Realty Corp., 42 T.C. 273, Acq., 1964-2 C.B. 3.

**346.12 Club organized as nonstock corporation.** Amounts distributed to members upon dissolution of a club organized as a nonstock corporation are treated as a sale of stock, subject to capital gains and loss treatment, even though no stock has been issued; since annual dues do not constitute a capital investment, in the absence of any original membership fee the basis of each member's interest in the club is zero. §§39.111-1, 39.112(a)-1, 39.115(c)-1, 39.117(a)-1. (Secs. 111, 112(a), 115(c), 117(a), '39 Code; Secs. 331, 1001, 1002, 1221, '86 Code.)

Rev. Rul. 55-737, 1955-2 C.B. 570.

**346.13 Collapsible corporations; computation of gain.** Where a taxpayer realizes gain upon liquidation of a collapsible corporation and receipt of its property, the portion of the total gain attributable to property, the construction of which was completed more than three years before such realization, is computed under reg. 1.3414(c)(2) (as though the corporation has not manufactured, constructed, produced or purchased any other property). §1.341-4. (Sec. 341, '86 Code.)

Rev. Rul. 70-93, 1970-1 C.B. 71.

**346.14 Collapsible corporations; construction defined.** Minor alterations and corrections to a building are not "construction" within the meaning of section 341 for purposes of determining whether a corporate liquidation occurred after the expiration of three years. The corporation is not a collapsible corporation to which section 341(a) applies within the meaning of section 333(a). Amplified by Rev. Rul. 72-422. §§1.333-1, 1.341-1. (Secs. 333, 341; '86 Code.)

Rev. Rul. 63-114, 1963-1 C.B. 74.

**346.15 Collapsible corporations; construction defined.** The dollar amount expended for alterations in connection with an existing structure

is not determinative of whether a taxpayer has engaged in "construction" within the meaning of section 341. Rev. Rul. 63-114 amplified. §1.341-1. (Sec. 341, '86 Code.)

Rev. Rul. 72-422, 1972-2 C.B. 211.

**346.16 Collapsible corporations; holding period.** Where a corporation acquires property in a nontaxable exchange, the three-year period following the completion of manufacture, construction, production or purchase of such property includes the period during which it was held by the predecessor. Where more than three years have elapsed following the manufacture, etc. of the property, the corporation is not a collapsible corporation to which section 341(a) applies. The benefits of section 333 may be available upon liquidation of the corporation. §§1.333-1, 1.341-4. (Secs. 333, 341; '86 Code.)

Rev. Rul. 57-491, 1957-2 C.B. 232.

**346.17 Collapsible corporations; holding period; property acquired by exchange.** A shopping center received by a corporation, in a transaction qualifying under section 1031(a), in exchange for a shopping center constructed by the corporation takes the date of completion of construction of the shopping center that was exchanged for purposes of section 341(d)(3). §1.341-4. (Sec. 341, '86 Code.)

Rev. Rul. 79-235, 1979-2 C.B. 135.

**346.18 Collapsible corporations; inventory.** Where a corporation is completely liquidated for bona fide business reasons before the realization by the corporation of gain attributable to inventory, the gain realized by the shareholders upon such liquidation is not taxable as ordinary income in a situation in which the inventory of the corporation at the time of liquidation is normal for the volume of sales and is no more than the average inventory over the past several years. §1.341-1. (Sec. 341, '86 Code.)

Rev. Rul. 56-244, 1956-1 C.B. 176.

**346.19 Collapsible corporations; recognition of gain.** Where a corporation in liquidation, claiming the benefit of a nontaxable sale of its property under section 337, is determined to be a collapsible corporation as defined in section 341(b), the gain from the sale of its property is included in the taxable income of the corporation. However, since the corporation has realized all of the taxable income from its property, the stockholders' gain would not constitute ordinary income. Distinguished to provide that a collapsible corporation, as defined in section 341(b), is not entitled to the nonrecognition-of-gain benefits of section 337 unless it meets the specific requirements of section 341(e)(4). §§1.337-1, 1.341-2. (Secs. 337, 341; '86 Code.)

Rev. Rul. 58-241, 1958-1 C.B. 179; Rev. Rul. 63-125, 1963-2 C.B. 146.

**346.20 Collapsible corporations; sale of property constructed within 3 years of liquidation.** Construction of a shopping center that was completed and sold to unrelated purchasers at a gain that was recognized in the year preceding the year of the builder's liquidation is not to be considered in determining whether section 341(d)(3) applies to the liquidation. §1.341-4. (Sec. 341, '86 Code.)

Rev. Rul. 79-226, 1979-2 C.B. 134.

**346.21 Collapsible corporations; sale of "substantially all the properties."** The sale by a domestic corporation, during a liquidation of the type described in section 337(a), of all of its assets to unrelated parties, except for one acre of unimproved land held as an investment representing 4 percent of the value of the total properties held on the date of adoption of the plan of liquidation and an installment obligation arising from the prior sale of unimproved land at a profit, is a sale of

"substantially all of the properties" of the corporation within the meaning of section 341(e)(4). The other conditions of section 341(e)(4) having been satisfied, the corporation is not considered a collapsible corporation for purposes of section 337; however, under section 453(d), it must recognize income on the distribution of the installment obligation. §§1.336-1, 1.337-1, 1.341-6, 1.453-9. (Secs. 336, 337, 341, 453; '86 Code.)

Rev. Rul. 73-500, 1973-2 C.B. 113.

**346.22 Collapsible corporations; stock ownership limitation.** A shareholder who unconditionally sells to an unrelated buyer sufficient stock in a collapsible corporation to reduce the seller's stock ownership to less than 20 percent before adoption of a plan of liquidation is considered not to exceed the 20-percent stock ownership limitation of section 341(e)(4). §§1.337-1, 1.341-6. (Sec. 337, 341; '86 Code.)

Rev. Rul. 78-285, 1978-2 C.B. 137.

**346.23 Collapsible corporations; subsequent sale.** The collapsible corporation provisions do not apply to the proceeds of sales by a corporation's former stockholders from the ultimate sale of real estate received in a liquidation under section 112(b)(7); any gain realized on such a sale is subject to the capital gains provisions of section 117(j) of the '39 Code. §§39.112(b)(7)-1, 39.117(j)-1. (Secs. 112(b), 117(j), '39 Code; Secs. 333, 1231, '86 Code.)

Rev. Rul. 56-160, 1956-1 C.B. 633.

**346.24 Commissions assigned sole stockholder.** Commissions payable to a corporation in liquidation are income to the corporation where, prior to the date of filing the certificate of dissolution and prior to the date on which the right to receive the commissions was assigned to its sole stockholder, the corporation had performed the services required to earn the commissions. §§39.22(a)-1, 39.22(a)-20, 39.115(c)-1. (Secs. 22(a), 115, '39 Code; Secs. 61, 331, '86 Code.)

Rev. Rul. 255, 1953-2 C.B. 10.

**346.25 Complete; checklist for ruling requests.** A revised checklist sets forth the information and representations to be included in a request for a ruling under sections 331 and 337, with respect to a liquidation of a corporation. Rev. Proc. 81-52 superseded. §§1.331-1, 1.337-1. (Sec. 601.201, S.P.R.; Secs. 331, 337, '86 Code.)

Rev. Proc. 86-16, 1986-1 C.B. 546.

**346.26 Complete; gain or loss on sales or exchanges; 12-month period defined.** The 12-month period referred to in section 337 with respect to a plan of complete liquidation by a corporation begins on the date of adoption of the plan and ends at 12 o'clock midnight on the day preceding the corresponding date in the following calendar year. §1.337-1. (Sec. 337, '86 Code.)

Rev. Rul. 79-3, 1979-1 C.B. 143.

**346.27 Contracts and claims to receive indefinite amounts.** Except in rare and extraordinary cases, contracts and claims to receive indefinite amounts, such as those received in exchange for stock in liquidation of a corporation, must be valued for purposes of determining whether receipts thereunder constitute ordinary income or capital gains. §1.61-1. (Sec. 61, '86 Code.)

Rev. Rul. 58-402, 1958-2 C.B. 15; Susan J. Carter, 9 T.C. 363, J.C. Bradford, 22 T.C. 1057, George J. Lentz, 28 T.C. 1157, Acq., 1958-2 C.B. 4, 6.

**346.28 Controlled corporation; allocation of distribution.** Subsequent to the Commissioner's allocation of the income of the taxpayer's wholly-owned corporation to another wholly-owned corporation, the first corporation was liquidated. *Held*, the distribution was in complete liquidation resulting in long-term capital gain which cannot be allocated to the surviving corporation to cause

the distribution to be essentially equivalent to a dividend. (Secs. 45, 115(c), 115(g), '39 Code; Secs. 304, 331, 482, '86 Code.)

Walter L. Morgan, 33 T.C. 30, Acq., 1960-2 C.B. 7.

**346.29 Controlled corporation; business assets of one sold to the other.** Taxpayer's wholly-owned corporation sold all its physical assets to his other wholly-owned corporation and distributed its remaining assets (cash and bonds) to him in exchange for his stock. *Held*, as there was no stock for stock exchange, the transaction was not a reorganization resulting in a dividend but a distribution in complete liquidation resulting in long-term capital gain. (Secs. 112(b), 112(c), 112(g), 115(c), '39 Code; Secs. 331, 355, 356, 368, '86 Code.)

Walter L. Morgan, 33 T.C. 30, Nonacq., 1960-2 C.B. 8.

**346.30 Controlled corporation; business assets of one sold to the other.** The sale of operating assets by one commonly owned corporation to another, followed by the seller's liquidation and distribution to the sole shareholder, constitutes a reorganization in which gain realized by the shareholder is recognized to the extent of the cash received and is treated as a dividend to the extent of the combined earnings and profits of both corporations. §§1.331-1, 1.356-1, 1.368-2. (Secs. 331, 356, 368, '86 Code.)

Rev. Rul. 70-240, 1970-1 C.B. 81.

**346.31 Controlled corporation; recognition of gain; election.** The sole stockholders filed an intent to dissolve their Colorado corporation in November, 1960, articles of dissolution in February 1961, and within 30 days, a tax return electing to have its stock taxed pursuant to section 333 of the Code. They later sought to avoid the election. *Held*, under State law, the filing of the intent to dissolve prohibited all activity except the winding up of affairs and constituted a plan of liquidation. Accordingly, the attempted section 333 election was not binding. (Sec. 333, '86 Code.)

Harold O. Wales, 50 T.C. 399, Acq., 1968-2 C.B. 3.

**346.32 Cooperative; value of capital stock.** Where an exempt growers' marketing cooperative association, pursuant to a revolving fund agreement, each year retains portions of the amounts due growers for crops and issues stock therefor, and the growers report the face amount of the stock received as part of income from crops each year, the value of the stock does not represent earnings and profits of the association upon its liquidation. §39.112(b)(7)-4. (Sec. 112(b), '39 Code; Sec. 333, '86 Code.)

Rev. Rul. 54-244, 1954-1 C.B. 104.

**346.33 Corporation continued as partnership; goodwill.** Where a corporation is liquidated under section 333 and the goodwill of the corporation has value in the hands of its shareholders, a portion of the basis of the shareholders' stock must be allocated to the goodwill. §§1.333-1, 1.334-2. (Secs. 333, 334, '86 Code.)

Rev. Rul. 66-81, 1966-1 C.B. 64

**346.34 Corporation owned by partnership.** A corporation owned by a partnership whose members are an individual and two corporations adopted a plan of complete liquidation that meets the requirements of section 333(a). The partnership, not each partner, is the qualified electing shareholder who must elect to have section 333 apply to any gain. However, each partner's distributive share of the gain must be taken into account and recognized separately as provided in section 333(e) and (f), except that the share of a partner that would be an excluded corporation within the meaning of section 333(b) if it owned its interest directly will be recognized under section 331(a).

§§1.333-2, 1.702-1, 1.703-1. (Secs. 333, 702, 703, '86 Code.)

Rev. Rul. 79-82, 1979-1 C.B. 141.

**346.35 Corporations; bad debt reserves.** The complete liquidation, to which sections 332(a) and 336 apply, of a subsidiary that used the accrual method of accounting and the reserve method of treating bad debts results in income to the liquidating corporation to the extent that the fair market value of accounts receivable, the basis of which in the hands of the transferee determined under section 334(b)(2) is equal to its fair market value, exceeds the face amount of the receivables less the amount of the reserve for bad debts, additions to which had resulted in tax benefits in prior years. Rev. Rul. 65-258 revoked. §§1.61-1, 1.332-1, 1.334-1, 1.336-1. (Secs. 61, 332, 334, 336; '86 Code.)

Rev. Rul. 78-278, 1978-2 C.B. 134.

**346.36 Corporations; bad debt reserves.** The sale, pursuant to a plan of complete liquidation under section 337, of accounts receivable by a corporation that had used the accrual method of accounting and the reserve method of treating bad debts from which it had received a tax benefit results in income to the extent that the amount received exceeds the face amount of the receivables less the amount of the reserve for bad debts. Rev. Rul. 57-482 superseded. §§1.61-1, 1.337-1. (Secs. 61, 337; '86 Code.)

Rev. Rul. 78-279, 1978-2 C.B. 135.

**346.37 Corporations; filing requirements of receiver or trustee.** A state superintendent of insurance must file a federal income tax return for an insurance company for the period that the superintendent continues to have possession of or hold title to the property of the insurer, even though the insurer's state charter has been formally revoked. §1.6012-2. (Sec. 6012, '86 Code.)

Rev. Rul. 84-170, 1984-2 C.B. 245.

**346.38 Corporations; short period return.** A corporation that has completed liquidation is considered dissolved, and must file its return and pay the tax due thereon for the short period on or before the fifteenth day of the third month following the dissolution, unless a later date for filing is permitted by the District Director. The corporation may elect, however, to pay the tax in installments. Rev. Rul. 215 superseded. §§1.6071-1, 1.6072-2. (Secs. 6071, 6072; '86 Code.)

Rev. Rul. 71-129, 1971-1 C.B. 397.

**346.39 Date of adoption of plan; closely-held corporation; shareholders' approval.** Under certain circumstances, the Revenue Service will no longer contend that the nonrecognition provisions of section 337 are inapplicable on the ground that a closely-held corporation's plan of complete liquidation was not adopted until the date of formal approval by the shareholders. §1.337-2. (Sec. 337, '86 Code.)

Rev. Rul. 65-235, 1965-2 C.B. 88.

**346.40 Definition of property.** The term "property" as used in section 332(a) includes money in transactions involving complete liquidation of a subsidiary corporation. G.C.M. 19435 superseded. §1.332-1. (Sec. 332, '86 Code.)

Rev. Rul. 69-379, 1969-2 C.B. 48.

**346.41 DISC; sale of stock.** A domestic corporation that, prior to January 1, 1977, sold its wholly owned DISC subsidiary's stock pursuant to a plan of sale and complete liquidation under section 337 is not required to include in its gross income any gain on the sale of the stock. However, for transactions occurring after December 31, 1976 the seller must include in gross income, as a dividend, the excess of the fair market value over the adjusted basis of the DISC stock to the extent of the accumulated DISC income of such DISC attributable

to the seller as provided in section 995(c)(2). §§1.337-1, 1.995-1. (Secs. 337, 995; '86 Code.)

Rev. Rul. 79-104, 1979-1 C.B. 263.

**346.42 Discounted promissory notes.** A cash basis corporation which adopted a plan of complete liquidation and sold all of its assets in bulk realized ordinary income upon that portion of the sale pertaining to interest income on discounted promissory notes which had been earned but not received at the time of the sale. §§1.61-7, 1.337-3. (Secs. 61, 337; '86 Code.)

Rev. Rul. 59-120, 1959-1 C.B. 74.

**346.43 Dissolved corporations; proceeds from contested claims.** Pursuant to a plan of complete liquidation a corporation distributed all its assets to its shareholders. Included in the distribution was the corporation's share of disputed claims pending against the Bureau of Reclamation and the Industrial Indemnity Co. arising from a joint venture on a construction project. Payment of the claims was made after the corporation was formally dissolved. *Held*, the corporation had made a liquidating distribution to its shareholders in exchange for their stock and the claims were a capital asset. Income the shareholders received from the claims was a capital gain. (Sec. 1221, '86 Code.)

Shea Co., 53 T.C. 135, Acq., 1970-1 C.B. xvi.

**346.44 Dissolved corporations; transfer of awards to trustees.** Two dissolved corporations, determined for prior years to be inexistence for tax purposes by reason of awards retained as assets, no longer retained assets and had ceased business during the issue years by reason of Treasury-approved change in payment of awards which transferred ownership to the shareholders' trustees. *Held*, the corporations were fully liquidated and no longer in existence for tax purposes. (Sec. 6012, '86 Code.)

Sigurd N. Hersloff, 46 T.C. 545, Acq., 1967-1 C.B. 2.

**346.45 Distributions; acquisition date of property.** Stock and securities, acquired by a domestic corporation in July 1955 in a transaction to which section 351 applies, and having a holding period commencing prior to December 31, 1953, are, nevertheless, upon their distribution in the liquidation of the corporation in 1956, considered to be stock and securities "acquired by the corporation after December 31, 1953". §1.333-4. (Sec. 333, '86 Code.)

Rev. Rul. 58-92, 1958-1 C.B. 174.

**346.46 Distributions; assets.** An individual who owns nineteen percent of the outstanding stock of a corporation which meets the requirements for liquidation under section 333 is entitled to the benefits of that section, even though an excluded corporation owns the remaining stock. The liquidation will also meet the requirements of section 332 as to distribution of the remaining assets to the majority stockholder. The earnings and profits at the time of liquidation, which are properly applicable to the assets distributed to the acquiring corporation, will become earnings and profits of the latter corporation under section 381. §§1.332-1, 1.333-1, 1.334-1, 1.336-1. (Secs. 332, 333, 334, 336, 381; '86 Code.)

Rev. Rul. 56-212, 1956-1 C.B. 170.

**346.47 Distributions; building and loan association.** Earnings and profits of a domestic building and loan association distributed in complete liquidation to holders of withdrawable shares are not deductible by the association as dividends paid. Such distributions represent amounts received by the shareholders as full payment in exchange for their shares of stock in the association as provided in section 331 and the gain or loss on the liquidation falls within the provisions of section 1001. §§1.316-1, 1.331-1. (Secs. 316, 331, 591; '86 Code.)

Rev. Rul. 57-39, 1957-1 C.B. 198.

## Liquidations

**346.48 Distributions; business taken over by partnership.** A credit on its books by a succeeding partnership of each shareholder-partner's equity in a liquidated corporation is equivalent to a distribution of the corporation's assets and taxable to the partners. I.T. 1323 and S.R. 1240 superseded. §1.331-1. (Sec. 331, '86 Code.)  
Rev. Rul. 69-534, 1969-2 C.B. 48.

**346.49 Distributions; cash exceeding basis of cancelled stock.** An interim negative figure may be used in computing the basis under section 334(c) of property received in a liquidation under section 333 where the amount of money received by the shareholder is greater than the basis of his cancelled stock. §§1.333-4, 1.334-2. (Secs. 333, 334; '86 Code.)  
Rev. Rul. 68-434, 1968-2 C.B. 137.

**346.50 Distributions; complete within one taxable year.** The "taxable year" referred to in sections 332(b)(2) and (3) is the taxable year of the domestic or foreign corporation distributing its property in complete liquidation to another corporation. §1.332-3. (Sec. 332, '86 Code.)  
Rev. Rul. 76-317, 1976-2 C.B. 98.

**346.51 Distributions; constructive receipt; surrender of shares.** A domestic corporation, pursuant to a plan of complete liquidation, notified its shareholders that they would be entitled to receive a distribution in liquidation upon surrender of their shares of stock after a given date. All the corporations' liabilities had been discharged, its assets had been reduced to cash, and there was no likelihood that the liquidation would not be consummated. A cash method individual shareholder is in constructive receipt of the liquidating distribution as of the date the distribution first becomes payable. §§1.331-1, 1.451-2. (Secs. 331, 451; '86 Code.)  
Rev. Rul. 80-177, 1980-2 C.B. 109.

**346.52 Distributions; deliberately delayed beyond 12 months.** Section 377 does not apply to a transaction in which a corporation sold its assets at a loss and deliberately delayed the liquidation distribution beyond 12 months from the date of adoption of the plan of liquidation; consequently, the loss is realized and recognized by the corporation. §1.337-2. (Sec. 337, '86 Code.)  
Rev. Rul. 77-150, 1977-1 C.B. 88.

**346.53 Distributions; determination of taxable status.** Instructions and guidelines are set forth relating to the determination of the taxable status of corporate distributions and the supporting information to be furnished to the Service. Rev. Procs. 65-10 and 67-12 superseded. §§1.301-1, 1.316-1, 1.333-1, 1.6042-2. (Sec. 601.602, S.P.R.; Secs. 301, 316, 333, 6042, '86 Code.)  
Rev. Proc. 75-17, 1975-1 C.B. 677.

**346.54 Distributions; dividend v. excessive compensation.** Taxpayer, the principal stockholder-officer-employee of a corporation, received a \$40,000 bonus authorized and paid after the corporation had determined to liquidate. Upon audit of the corporation, \$15,000 of this bonus was disallowed as excessive compensation. *Held*, the \$15,000 payment constituted a distribution in complete liquidation of the corporation. (Sec. 331, '86 Code.)  
Joseph Garrison, 52 T.C. 281, Acq., 1969-2 C.B. xxiv.

**346.55 Distributions; escrow fund for dissenting shareholders.** Where, pursuant to a plan of complete liquidation and within 12 months, cash equal to the appraised value of stock owned by dissenting shareholders is placed in escrow by complete transfer of such cash to an independent party until there is a final determination of the value of the stock, the liquidating corporation will

be considered to have distributed the cash. (Sec. 337, '86 Code.)

Rev. Rul. 65-257, 1965-2 C.B. 89.

**346.56 Distributions; foreign to foreign.** Regulations under section 367 of the Code will be promulgated to address foreign-to-foreign liquidations in the context of the repeal of the *General Utilities* rule.

Notice 87-5, 1987-1 C.B. 416.

**346.57 Distributions; goodwill; automobile franchise.** A corporation operating an automobile dealership under a terminable franchise from the manufacturer was liquidated and all its assets, other than the franchise itself, were distributed to the taxpayer, its sole stockholder. The taxpayer had been assured by the automobile manufacturer in advance of the dissolution of the corporation that a franchise would be assigned to a partnership consisting of taxpayer and his wife. *Held*, the goodwill which the corporation had created was bound to the franchise, and therefore the taxpayer did not receive an amount in excess of the value of the net tangible assets distributed to him. (Secs. 111, 115, '39 Code; Secs. 331, 1001, '86 Code.)  
Floyd D. Akers, 6 T.C. 693, Acq. in result, 1976-2 C.B. 1.

**346.58 Distributions; goodwill; captive corporation.** A creamery that maintained an unusually high profit percentage because it operated as a "captive" of five supermarket chains which owned almost 80 percent of its stock and bought most of its dairy products, liquidated and all the assets distributed in liquidation were contributed by the stockholders to a successor partnership. *Held*, the creamery owned no recognizable goodwill for tax purposes and the stockholders received no such asset at the time of liquidation since a prospective third-party purchaser could have anticipated the loss of its five main customers and a decline in profits. (Secs. 111(a), 115(c), '39 Code; Secs. 331, 1001, '86 Code.)

Donal A. Carty, 38 T.C. 46, Acq., 1964-1 (Part 1) C.B. 4.

**346.59 Distributions; liquidation-reincorporation; redemption of stock.** Sixty-two percent of the stockholders of X corporation formed Y corporation and received 73 percent of Y stock. In accordance with a plan of "liquidation-reincorporation," Y "bought" the operating assets of X and carried on the same business as X. In a redemption of their stock, the stockholders of X received distributions which included an accumulation of earnings and profits. *Held*, the distribution in redemption of all the stock of the old corporation should be afforded capital gain treatment as a partial liquidation. (Secs. 331, 346; '86 Code.)

William J. Bush, 39 T.C. 144, Nonacq., 1964-2 C.B. 8.

**346.60 Distributions; non pro rata.** A non pro rata distribution under a plan of complete liquidation made by a corporation having only one class of stock outstanding will be treated as a pro rata distribution. All shareholders will be considered to have received their pro rata share of the distribution. Any excess received over a shareholder's pro rata share will be considered as payment, in a separate transaction, from shareholders receiving less than their pro rata share. §1.331-1. (Sec. 331, '86 Code.)  
Rev. Rul. 79-10, 1979-1 C.B. 140.

**346.61 Distributions; notes of debtor-shareholders.** Cancellation by a corporation of the indebtedness of its debtor-shareholders pursuant to a distribution in liquidation is considered as the receipt of money by such shareholders within the meaning of sections 333(e)(2) and 333(f)(1). §1.333-4. (Sec. 333, '86 Code.)  
Rev. Rul. 70-409, 1970-2 C.B. 79.

**346.62 Distributions; officer-shareholder's indebtedness.** A corporation sold its assets for consideration including the purchasers' agreement to pay all of its income tax liabilities. Most of the cash proceeds of sale were distributed to taxpayer, the majority stockholder and president, and the corporation was liquidated. At the time of sale the taxpayer executed a promissory note to be paid from his "excess sales commissions" in substitution for a loan account receivable he owed the corporation. *Held*, taxpayer did not receive a liquidating distribution in the form of cancellation of his indebtedness. (Sec. 331, '86 Code.)

Morris Alexander, 61 T.C. 278, Acq., 1974-2 C.B. 1.

**346.63 Distributions; parent from subsidiary.** Where a liquidating distribution is made by a subsidiary corporation to its parent corporation, which is also undergoing complete liquidation, the surrender by the parent of its stock interest in the subsidiary for the liquidating distribution by the subsidiary is deemed a "sale or exchange" for purposes of determining gain or loss of the parent from the liquidation. Rev. Rul. 56-372 distinguished. §§1.331-1, 1.337-1. (Secs. 331, 337, 1231; '86 Code.)  
Rev. Rul. 57-243, 1957-1 C.B. 116.

**346.64 Distributions; series; allocation among blocks of shares.** A multi-shareholder corporation makes a series of distributions in complete liquidation. The tax treatment of amounts received by a shareholder owning several blocks of shares is explained. Rev. Rul. 68-348 amplified. §§1.331-1, 1.346-1. (Secs. 331, 346; '86 Code.)  
Rev. Rul. 85-48, 1985-1 C.B. 126.

**346.65 Distributions; series; allocation to blocks of stock.** Where a complete liquidation is consummated by a series of distributions, a shareholder who purchased separate blocks of stock must prorate each distribution to each block. Gain or loss must be computed separately with respect to each block and gain will be recognized only after the adjusted basis of such block has been fully recovered. A loss generally will be recognized only after the corporation has made its final distribution. §§1.331-1, 1.346-1, 1.1012-1. (Secs. 331, 346, 1012; '86 Code.)  
Rev. Rul. 68-348, 1968-2 C.B. 141.

**346.66 Distributions; small corporation; transition rule.** Shareholders of certain small corporations that adopt a plan of complete liquidation under the transition rule of section 633(d) of the Tax Reform Act of 1986 may make an election under section 333 for liquidations completed before January 1, 1989. Examples illustrate how the recognition of shareholder-level gain is determined under the transition rule. (Sec. 333, '86 Code.)  
Rev. Rul. 87-4, 1987-1 C.B. 132.

**346.67 Distributions; tax refund claim.** A claim for refund of Federal taxes will be considered to be distributed within the 12-month period if it is completely transferred within that period to an independent trustee selected by the stockholders pursuant to the plan of liquidation approved by the stockholders. §1.337-2. (Sec. 337, '86 Code.)  
Rev. Rul. 63-245, 1963-2 C.B. 144.

**346.68 Distributions; transfers in trust.** A transfer by a liquidating corporation of realty, not readily marketable, and cash for outstanding liabilities to an independent trustee on behalf of the shareholders is a distribution in complete liquidation. The income tax treatment to the shareholders of the property transferred to the trust is discussed. §1.337-2. (Sec. 337, '86 Code.)  
Rev. Rul. 72-137, 1972-1 C.B. 101.

**346.69 Distributions to sole shareholder; partnership interest.** The transfer, pursuant to a plan of liquidation, by a corporation of all its assets

to a partnership in exchange for a partnership interest and the subsequent distribution of that interest to the sole shareholder in redemption of the shareholder's stock does not qualify for non-recognition of gain under section 333 but will be treated as a distribution of assets to the shareholder in complete liquidation followed by the shareholder's contribution of the assets to the partnership in exchange for the partnership interest. §§1.333-4, 1.334-2, 1.721-1. (Secs. 333, 334, 721; '86 Code.)

Rev. Rul. 77-321, 1977-2 C.B. 98.

**346.70 Distributions to sole shareholder; small business corporation.** A cash distribution to the sole shareholder of an electing small business corporation liquidated pursuant to section 333 is not a distribution of the shareholder's net share of previously taxed income. §§1.333-4, 1.1373-1, 1.1375-4. (Secs. 333, 1373, 1375; '86 Code.)

Rev. Rul. 76-347, 1976-2 C.B. 253.

**346.71 Distributions to sole shareholder; prior to sale of stock.** A corporation's distribution, from earnings and profits, of all its cash to its sole shareholder immediately prior to, and as part of the negotiations for, the sale of all the shareholder's stock to a buyer who liquidated the corporation and then paid the shareholder the agreed price with funds borrowed from an unrelated party is treated as a dividend under section 301. The Service will not follow *Casner* holding under similar facts that the cash distribution was part of the purchase price of the stock. §§1.301-1, 1.331-1. (Secs. 301, 331; '86 Code.)

Rev. Rul. 75-493, 1975-2 C.B. 108.

**346.72 Failure to file Form 996.** A shareholder will not be denied the income tax treatment provided under section 331(a)(2) with respect to amounts distributed by a corporation in partial liquidation solely as a result of the corporation's failure to file, or the late filing of, Form 966. §§1.331-1, 1.6043-1. (Secs. 331, 6043; '86 Code.)

Rev. Rul. 65-80, 1965-1 C.B. 154.

**346.73 Failure to file required information.** A corporation will not be denied the benefits of section 337 for failure to report the information required by reg. 1.337-6. However, under certain circumstances, failure to furnish such information may subject the taxpayer to the provisions of section 7203, pertaining to criminal penalties for willful failure to supply information required by the regulations. §1.337-6. (Sec. 337; '86 Code.)

Rev. Rul. 65-30, 1965-1 C.B. 155.

**346.74 Foreign corporations; determination of taxable year.** The taxable year (annual accounting period) of a foreign corporation shall be determined under section 441, and the regulations thereunder, and by treating a foreign corporation which is not subject to U.S. income tax as though it were a taxpayer within the meaning of section 7701(a)(14). Procedures are set forth for determining the taxable year of a foreign corporation for purposes of sections 902(d), 951 through 972, and 1246 through 1248, as amended and added by the Revenue Act of 1962. Once a taxable year of a foreign corporation has been established under these rules, it may not be changed without approval of the Commissioner. Clarified to include controlled foreign corporations and liquidating foreign corporations. §§1.332-3, 1.441-1, 1.442-1, 1.902-2, 1.951-1. (Sec. 601.204, S.P.R.; Secs. 332, 441, 442, 902, 951, 1246; '86 Code.)

Rev. Proc. 63-7, C.B. 1963-1, 485; Rev. Proc. 75-54, 1975-2 C.B. 594; Rev. Proc. 76-35, 1976-2 C.B. 658.

**346.75 Going concern; basis of distributed property.** A corporation was formed by an individual to purchase the capital stock of a "going business." Within two years, the acquiring corpo-

ration liquidated its subsidiary and completed a new "stepped-up" basis for the assets acquired upon the liquidation, based upon the consideration paid by it for the capital stock of the subsidiary. The fact that the continuing corporation was organized by an individual for the purpose of obtaining a "going business" does not deny it the benefits of section 334(b)(2). Accordingly, the continuing corporation is entitled to a "stepped-up" basis in the assets received, equal to the adjusted basis to it of the capital stock of the purchased subsidiary. §§1.332-1, 1.334-1. (Sec. 332, 334; '86 Code.)

Rev. Rul. 60-262, 1960-2 C.B. 114.

**346.76 Investment credit recapture.** Used depreciable property received by a corporation as a distribution in complete liquidation of a subsidiary 18 months after it purchased all of the subsidiary's stock in November 1968, the basis of such property being determined under section 334(b)(2), qualifies as used section 38 property "acquired by purchase" under section 179(d)(2) and is treated as "pretermination property" available for investment credit under section 49(b)(7)(B). Property included in the distribution on which the subsidiary was allowed investment credit is subject to the recapture provisions of section 47. Rev. Rul. 70-391 clarified. §§1.47-1, 1.48-3, 1.179-3, 1.334-1. (Secs. 47, 48, 49, 179, 334; '86 Code.)

Rev. Rul. 73-461, 1973-2 C.B. 10.

**346.77 Investment credit recapture; controlled corporation.** A domestic corporation engaged in a complete liquidation qualifying under section 333(a) must recapture investment credit on section 38 property distributed to its sole noncorporate shareholder who continues to use the property in the same business in which the corporation was engaged. §§1.47-3, 1.333-1. (Secs. 47, 333; '86 Code.)

Rev. Rul. 73-515, 1973-2 C.B. 7.

**346.78 Investment credit recapture; used property.** Where, pursuant to a pre-arranged plan, one corporation purchases the stock of another corporation to acquire the assets through a liquidation distribution such purchase does not cause the acquired and acquiring corporations to become affiliated. The property so acquired is considered to have been acquired by purchase and qualifies as used section 38 property for investment credit purposes. The recapture provisions of section 47 are applicable to the liquidated corporation. Clarified by Rev. Rul. 73-461. §§1.47-1, 1.48-3, 1.179-3, 1.1504-1. (Secs. 47, 48, 179, 1504; '86 Code.)

Rev. Rul. 70-391, 1970-2 C.B. 3.

**346.79 Involuntary conversions; condemnation award; retention of assets.** A mutual water company's directors accepted a condemnation award, immediately transferred all operating assets, and within 12 months distributed all assets less reasonable amounts for contingent liabilities and redemption of a minimal amount of stock. *Held*, although no formal plan of liquidation had been adopted, no gain is recognized and a de minimus exception is applied to the unredeemed stock. (Sec. 337; '86 Code.)

Mountain Water Co., 35 T.C. 418, Acq., 1961-1 C.B. 4.

**346.80 Involuntary conversions; condemnation of corporate realty.** The condemnation of real estate of a corporation and the vesting of title to the property in the condemning authority pursuant to a court order issued within the 12-month period beginning on the date of the adoption of a plan of complete liquidation by the corporation, constituted a sale of the property as of the date of the court order even though the determination and payment of the award did not occur until after the close of the 12-month period. Therefore, the condemnation did not result in the recognition of gain

or loss to the corporation. §1.337-2. (Sec. 337; '86 Code.)

Rev. Rul. 59-108, 1959-1 C.B. 72.

**346.81 Involuntary conversions; fire.** The involuntary conversion of corporate property resulting from casualty recognized as a sale or exchange for purposes of section 337(a) takes place when the casualty occurs and not when the insurance claims are settled or paid. Accordingly, a corporation whose property was destroyed by fire prior to its adoption of a 12-month plan of liquidation and which received the insurance proceeds after the plan was adopted must recognize the gain realized on the involuntary conversion. §1.337-2. (Sec. 337; '86 Code.)

Central Tablet Manufacturing Co., 417 U.S. 673, Ct. D. 1966, 1974-2 C.B. 109.

**346.82 Involuntary conversions; fire.** An involuntary conversion resulting from the complete destruction by fire of a building used in the taxpayer's trade or business, or of other property as defined in section 337, constitutes a sale or exchange for purposes of obtaining non-recognition of gain or loss benefits, where liquidation of corporate assets is affected pursuant to section 337(a). Rev. Rul. 56-372 revoked. Distinguished by Rev. Rul. 73-589. §1.337-1. (Sec. 337; '86 Code.)

Rev. Rul. 64-100, 1964-1 (Part 1) C.B. 130.

**346.83 Life insurance company.** A life insurance company which disposes of its insurance business under a reinsurance agreement with another company, but which continues its corporate existence under local law for an extended period thereafter for the purpose of winding up and liquidating its affairs, ceases to be a life insurance company on the effective date of such agreement and thereafter becomes taxable as an ordinary corporation. §39.201-3. (Sec. 201; '39 Code; Sec. 801; '86 Code.)

Rev. Rul. 56-106, 1956-1 C.B. 313.

**346.84 Life insurance company subsidiary; distribution of surplus.** The complete liquidation of a stock life insurance company subsidiary into its parent stock life insurance company in a merger effected to simplify the corporate structure of the group of related corporations, with the combined balances in the policyholders surplus accounts not exceeding the maximum limitations of section 815(d)(4), does not result in a distribution of policyholder's or shareholder's surplus accounts under section 815(f) and does not give rise to life insurance company taxable income under section 802(b)(3). §§1.332-1, 1.802-4, 1.815-2. (Secs. 332, 802, 815; '86 Code.)

Rev. Rul. 77-248, 1977-2 C.B. 228.

**346.85 Life insurance company subsidiary; section 810(C) items transferred.** Computation of the increase or decrease in section 810(c) items transferred by a subsidiary life insurance company to its parent life insurance company upon liquidation of the subsidiary. §1.381(c)(22)-1. (Sec. 381; '86 Code.)

Rev. Rul. 72-344, 1972-2 C.B. 213.

**346.86 Loss; common stock worthless.** A taxpayer is not prevented from claiming a loss on the worthlessness of the common stock of its wholly owned subsidiary upon dissolution of the subsidiary and transfer to the taxpayer of its assets, which were insufficient to satisfy a prior claim of the preferred stock. (Secs. 23(f), 23(g), 112(b); '39 Code; Secs. 165, 332; '86 Code.)

Spaulding Bakeries, Inc., 27 T.C. 684, Nonacq., 1957-2 C.B. 8.

**346.87 Loss; deduction.** In 1966, the assets of a corporation, which was in the process of complete liquidation, consisted of bonds of another company and cash amounting to less than one percent of the total assets. The shareholders of the corporation, pursuant to the plan of liquidation,

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surrendered their stock and received the bonds of the other company together with participation certificates entitling them to proportionate interests in final distribution. It was determined that the amount of cash would result in a distribution of only a few cents per share. The remaining cash was distributed to the shareholders in 1968. *Held*, the loss on the liquidation was sustained in 1966 and was deductible for that year. G.C.M. 21966 superseded. §1.331-1. (Sec. 331, '86 Code.)

Rev. Rul. 69-334, 1969-1 C.B. 98.

**346.88 Major and minor businesses.** A transaction whereby all of the stockholders of a closely held corporation, which operated two businesses, sold part of their stock to a new corporation and then liquidated the old corporation, distributing the corporate assets constituting its major business to the new corporation and those of the minor business to the old stockholders is not a reorganization. The tax consequences of the transaction are discussed. §§39.22(a)-20, 39.112(g)-2, 39.115(c)-1. (Secs. 22(a), 112(g), 115(c), '39 Code; Secs. 61, 331, 368, '86 Code.)

Rev. Rul. 54-500, 1954-2 C.B. 154.

**346.89 Mortgaged property; basis.** The basis for depreciation and gain or loss on the sale or other disposition of mortgaged property received by stockholders in a complete corporate liquidation should be determined by adding the amount of the mortgage indebtedness to the basis prescribed in section 113(a)(18) of the Code. It is immaterial whether the mortgage indebtedness is assumed by the stockholders or the property is taken subject to the mortgage. §§29.112(b)(7)-1, 29.113(a)(18)-1. (Secs. 112(b), 113(a), '39 Code; Secs. 333, 334, '86 Code.)

Rev. Rul. 95, 1953-1 C.B. 162.

**346.90 Mutual irrigation company; assessments rebated.** Amounts distributed in liquidation by a mutual irrigation company, representing excess noncapital assessments collected from the stockholders, are to be treated as rebates taxable to the shareholders as ordinary income to the extent of any previously derived tax benefit. Additional amounts distributed as earnings and profits are to be treated as gains taxable to the recipients according to the provisions of section 333. Earnings and profits include all earnings and profits accumulated after February 28, 1913, without adjustment for any deficit prior to that date, but reduced by the total amount deemed rebated. §§1.111-1, 1.333-1. (Secs. 111, 333, '86 Code.)

Rev. Rul. 60-49, 1960-1 C.B. 148.

**346.91 Net operating loss carryback.** Where a corporation sustained a net operating loss for a taxable year beginning in 1954 during which it sold assets pursuant to a complete plan of liquidation at an unrecognized gain, the amounts of the net operating loss, the net operating loss carryback, and the deduction allowable for a preceding taxable year are to be computed without adjustment for the unrecognized gain. §§39.122-5, 1.337-1. (Sec. 122, '39 Code; Secs. 172, 337, '86 Code.)

Rev. Rul. 56-448, 1956-2 C.B. 130.

**346.92 Net operating loss carryback; settlement of lawsuits.** A corporation that was partially liquidated and its assets distributed except for those retained and reinvested to cover estimated maximum liability for outstanding lawsuits, that had no business activities except in connection with various lawsuits, and that sustained a net operating loss resulting from the settlement of the lawsuits, may apply the loss carryback subject to conditions and limitations of section 172 of the Code. Rev. Rul. 61-191 distinguished. §1.172-1. (Sec. 172, '86 Code.)

Rev. Rul. 76-462, 1974-2 C.B. 82.

**346.93 One-month distribution; cash retained for contingent liability.** In an example

describing a one-month liquidation of a corporation and distribution of all assets, except for cash retained for a contingent liability, to its sole non-corporate shareholder who elected to have the benefits of section 333 apply to his realized gain, the determination of recognized gain and the determination of basis for depreciation and for gain on sale of property received in the liquidation is explained for the following situations: (1) in a subsequent year the retained cash was distributed to the shareholder; (2) in a subsequent year the retained cash was used to pay the liability; and (3) the shareholder received land in the distribution which he sold and machinery which he used in his business, and in a subsequent year the retained cash was used to pay the liability. §1.333-1. (Sec. 333, '86 Code.)

Rev. Rul. 73-490, 1973-2 C.B. 110.

**346.94 One-month distribution; continued existence to collect tax refund.** A liquidating corporation that within one month distributed to its noncorporate shareholders all of its property, including validly assigned rights to pro rata shares of a Federal income tax refund, and remained in existence solely to collect and distribute the refund, satisfies the requirements of section 333 and the electing shareholders may treat the gain realized in accordance with section 333(e). The distributed rights will not be treated as money received for purposes of applying section 333(e), but each shareholder will recognize ordinary income or loss upon receipt of proceeds from the refund to the extent of the difference between such proceeds and his basis of the rights received. §1.333-1. (Sec. 333, '86 Code.)

Rev. Rul. 74-476, 1974-2 C.B. 104.

**346.95 One-month distribution; gain recognition; reference to shareholder's pro rata interest.** The amount of gain recognized by qualified electing shareholders pursuant to section 333 is determined by reference to the assets actually received as liquidating distributions. Rev. Rul. 69-486 distinguished. §§1.333-4, 1.1001-1. (Secs. 333, 1001, '86 Code.)

Rev. Rul. 83-61, 1983-1 C.B. 78.

**346.96 One-month distribution; satisfaction of indebtedness to sole stockholder-creditor.** Gain is recognized by a corporation in a liquidation under section 333 with respect to appreciated property distributed by the corporation to its sole shareholder-creditor. However, under section 267 loss is not recognized by the corporation with respect to depreciated property similarly distributed. The earnings and profits of the corporation are increased by the gain realized and decreased by the loss realized and the income taxes incurred. §1.333-4. (Sec. 333, '86 Code.)

Rev. Rul. 76-175, 1976-1 C.B. 92.

**346.97 Operating losses; carrybacks.** Losses sustained or excess profits tax credits remaining unused by a corporation subsequent to the date that it is defacto dissolved may not be carried back to prior taxable years. The *Acampo* decision will not be followed insofar as it relates to the net operating loss carryback issue. Distinguished by Rev. Rul. 74-462. §§39.122-4, 1.172-1. (Secs. 23(s), 122, '39 Code; Sec. 172, '86 Code.)

Rev. Rul. 61-191, 1961-2 C.B. 251; *Acampo* Winery and Distilleries, 7 T.C. 629, Nonacq., 1961-2 C.B. 6.

**346.98 Organizational expenses.** A predecessor corporation capitalized its organizational expenses upon incorporation, transferred all its assets to a successor corporation, and then dissolved, deducting the organization expenses on its final return. The Commissioner contended that a statutory merger took place and the surviving corporation continued to receive benefit from the

organizational expenditures. *Held*, the deduction was proper. (Sec. 248, '86 Code.)

Kingsford Co., 41 T.C. 646, Acq., 1964-2 C.B. 6.

**346.99 Organizational expenses; promotional shares of stock.** Corporate stock, issued to corporate officers for legal services incident to corporate organization, obtaining a ball park, players, and other personnel, was capitalized at fair market value on issuance, carried on the books as an organization expense and deducted upon corporate dissolution. The Commissioner denied the deduction contending that the issuance of the stock did not constitute an expenditure. *Held*, the use of stock as payment rather than some other form of property does not effect a failure of expenditure and a loss deduction is allowed. (Secs. 165, 248, '86 Code.)

Hollywood Baseball Assn., 42 T.C. 234, Acq., 1964-2 C.B. 6.

**346.100 Parent liquidated after sale of collapsible subsidiary's stock.** Where a corporation holding stock in a collapsible subsidiary sells all of its stock in such subsidiary and the gain is taxable under section 341(a), the gain realized by the shareholders of the holding company upon its liquidation is not again taxable under section 341(a). §1.341-1. (Sec. 341, '86 Code.)

Rev. Rul. 56-50, 1956-1 C.B. 174.

**346.101 Partial; active business requirement; period between sale and distribution.** The period between the date of sale of assets upon termination of a business and the date the proceeds are distributed cannot be included in determining the five-year active business requirement. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 71-473, 1971-2 C.B. 179.

**346.102 Partial; collapsible corporations; rental property distributed.** Where gain is realized upon partial liquidation of a collapsible corporation and the distribution of its rental business, which consists solely of rental properties the construction of which was completed more than three years before such distribution, the portion of the gain attributable to property described in section 341(b)(1) is computed under reg. 1.341-4(c)(2). §1.341-4. (Sec. 341, '86 Code.)

Rev. Rul. 70-397, 1970-2 C.B. 80.

**346.103 Partial; contraction of business.** Where there is a genuine contraction of the corporate business activity, a distribution by a corporation in complete cancellation and redemption of a portion of its capital stock which does not exceed the net proceeds derived by the corporation from the bulk sales of its inventories is in partial liquidation. To the extent that the amount distributed exceeds the net proceeds from the bulk sale of inventories, such amount is taxable as a dividend. Modified by Rev. Rul. 60-232. §§39.115(a)-1, 39.115(c)-1, 39.115(g)-1. (Secs. 115(a), 115(c), 115(g), '39 Code; Secs. 301, 302, 316, 331, '86 Code.)

Rev. Rul. 55-373, 1955-1 C.B. 363.

**346.104 Partial; contraction of business.** Where the termination of all or part of one business of a corporation resulted in a genuine contraction of the corporate business, a distribution by the corporation in redemption of a portion of its capital stock constituted a distribution in partial liquidation to the extent the distribution did not exceed the net proceeds from the sale of the business assets plus that portion of the working capital reasonably attributable to the terminated business activities and no longer required in the operation of the continuing business activities. Rev. Rul. 55-373 modified. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 60-232, 1960-2 C.B. 115.

**346.105 Partial; contraction of business.** The change in a corporation's business operation from a full-time department store to that of a discount

apparel store by eliminating departments and most forms of credit, and changing the type of merchandise sold, which resulted in a large reduction in floor space, employees, inventory, fixed assets, accounts receivable, and sales, constituted a genuine contraction of the business of the corporation and a pro rata distribution to its shareholders in redemption of part of their stock qualifies as a partial liquidation. Rev. Rul. 60-322 distinguished. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 74-296, 1974-1 C.B. 80.

**346.106 Partial; contraction of business.** A corporation's pro rata distribution, to its shareholders in redemption of part of its stock, of the proceeds of the sale of a subsidiary's assets to an unrelated party, either by the corporation or the subsidiary, incident to the liquidation of the subsidiary under section 332 may qualify as a partial liquidation under section 346(a)(2) as a genuine contraction of the corporation's business as though the subsidiary's business had been conducted by the parent. However, the distribution of all the subsidiary's stock to the shareholders will not qualify. Distinguished by Rev. Rul. 77-375 and clarified by Rev. Rul. 77-376. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 75-223, 1975-1 C.B. 108.

**346.107 Partial; contraction of business.** For the purpose of determining whether a parent corporation's distribution of the assets of a liquidated subsidiary, or the proceeds from the sale of the assets, to its shareholders in redemption of part of its stock qualifies as a partial liquidation of the parent, the size of the subsidiary's discontinued trade or business is immaterial. Rev. Rul. 75-223 clarified. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 77-376, 1977-2 C.B. 107.

**346.108 Partial; contraction of business; distribution of real property subject to lease.** A corporation's distribution, in redemption of a portion of its stock, of real property managed by an independent management company under contract and subject to a lease which requires the lessee to bear the responsibilities of taxes, maintenance, and equipment operation does not constitute a genuine contraction of the corporation's business and the distribution does not qualify as a partial liquidation. §1.301-1, 1.346-1. (Secs. 301, 346, '86 Code.)

Rev. Rul. 76-526, 1976-2 C.B. 101.

**346.109 Partial; contraction of business; distribution of unneeded cash reserve.** A mass transit corporation's distribution of a cash reserve for bus replacement in redemption of a portion of its shareholders' stock under a plan of partial liquidation, after entering into an agreement to continue operating the transit service under a subsidy arrangement with a regional transit authority that would make all future bus purchases, did not represent a genuine contraction of the corporate business and does not qualify as a distribution in partial liquidation. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 78-55, 1978-1 C.B. 88.

**346.110 Partial; contraction of business; investments and excess inventory sold.** A distribution by a corporation does not constitute a partial liquidation where the corporation has a substantial accumulation of earnings but, due to the steady decline in the demand for its products, distributes cash, realized from the sale of portfolio bonds, and excess inventory, to its shareholders in redemption of part of its stock. The distributions will be taxed as a dividend. Distinguished by Rev. Ruls. 74-296 and 78-402. §§1.316-1, 1.346-1. (Secs. 316, 346, '86 Code.)

Rev. Rul. 60-322, 1960-2 C.B. 118.

**346.111 Partial; contraction of business; non pro rata distribution.** A distribution that otherwise qualified as a distribution in partial liquidation under section 346(a)(2) (predecessor to sec-

tions 302(b)(4) and 302(e)(1)) is not disqualified for treatment under section 346(a)(2) because the distribution was made non pro rata. §§1.302-1, 1.346-1. (Secs. 302, 346, '86 Code.)

Rev. Rul. 82-187, 1982-2 C.B. 80.

**346.112 Partial; contraction of business; pro rata distribution.** Where certain amounts are distributed on a pro rata basis in redemption of stock of a corporation because of a genuine contraction of its business, such redemption constitutes a distribution in partial liquidation of the corporation and is treated as a full payment in exchange for the stock. Clarified by Rev. Rul. 77-245 to provide that the stock surrendered was not traded under circumstances necessary to realistically establish its value by trading price and that the net asset value of the stock realistically reflected its fair market value. §§1.331-1, 1.346-1, 1.1001-1. (Secs. 331, 346, 1001, '86 Code.)

Rev. Rul. 56-513, 1956-2 C.B. 191; Rev. Rul. 77-245, 1977-2 C.B. 105.

**346.113 Partial; contraction of business; pro rata distribution.** The sale of all of the stock of a wholly owned subsidiary and the pro rata distribution of the proceeds by the parent corporation to its shareholders in redemption of part of their stock in the parent, all pursuant to a plan, is not a distribution in partial liquidation of the parent under section 346(a)(2). §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 79-184, 1979-1 C.B. 143.

**346.114 Partial; contraction of business; termination of contract.** The termination of a contract representing 95 percent of the gross income of a domestic corporation resulted in a genuine contraction of the corporation's business and the distribution of cash, made available by the release of funds from a restricted account established under a credit agreement with a bank and representing the working capital attributable to the terminated business, in redemption of a portion of the corporation stock qualifies as a distribution in partial liquidation. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 75-3, 1975-1 C.B. 108.

**346.115 Partial; contraction of business; working capital distributed.** A profitable wholesale appliance distributorship that terminated the business of its retail division, to which it had gradually committed funds over a long period of time to cover operating losses, may include the working capital of the retail division as part of the amount distributable in partial liquidation. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 76-289, 1976-2 C.B. 100.

**346.116 Partial; delayed distribution.** Where a real estate corporation sold a building and used the proceeds in its remaining business, the distribution several years later to the stockholders of an amount equal to the sale proceeds does not qualify as a partial liquidation, but constitutes a dividend to the extent of the earnings and profits of the corporation. Distinguished by Rev. Rul. 71-250. §§1.301-1, 1.346-1. (Secs. 301, 346, '86 Code.)

Rev. Rul. 58-565, 1958-2 C.B. 140.

**346.117 Partial; delayed distribution.** A corporation that adopted a plan to sell a manufacturing division and use the proceeds to redeem part of its stock, but delayed distribution of the proceeds by transferring them to a special investment account until the second taxable year after adoption of the plan, has not made a distribution in partial liquidation within the meaning of section 346(a)(2) even though the requirements of section 346(b) are met. §§1.331-1, 1.346-1. (Secs. 331, 346, '86 Code.)

Rev. Rul. 77-468, 1977-2 C.B. 109.

**346.118 Partial; distribution of appreciated securities in lieu of note received.** The distribution by a corporation of appreciated securities, in

substitution for a note received on the sale of the assets of a terminated business, is not a distribution in partial liquidation within the meaning of section 346(a)(2). The pro rata distribution is treated as a distribution of property to which section 301 applies. The corporation must recognize gain to the extent that the fair market value of the securities distributed exceeds the adjusted basis of the securities to the corporation. §§1.311-2, 1.346-1. (Secs. 311, 346, '86 Code.)

Rev. Rul. 79-275, 1979-2 C.B. 137.

**346.119 Partial; distribution of assets to form new corporation.** In order to remove certain legal restrictions on one of two businesses it operates, a corporation distributed all of the assets of that business in partial redemption of its stock to its two shareholders who, pursuant to an integrated plan, organized a new corporation to receive the assets and operate the business. The transaction is a reorganization under sections 368(a)(1)(D) and 355 and is not taxable as a partial liquidation. §§1.331-1, 1.346-1, 1.355-1, 1.368-2. (Secs. 331, 346, 355, 368, '86 Code.)

Rev. Rul. 77-191, 1977-1 C.B. 94.

**346.120 Partial; distribution of cash and appreciated property; termination of interest.** Distributions to a five percent shareholder by a corporation in partial liquidation under section 346(a)(2) of cash and appreciated property described in section 311(d)(1) and of cash in redemption of his remaining stock terminating his interest in the corporation are governed by sections 346 and 331(a)(2) to the extent of the property and by section 302 with respect to the cash. A similar pro rata cash distribution from the partial liquidation can be made to the remaining shareholders. The corporation will not recognize gain under section 311(d)(1) on the appreciated property distributed to all shareholders. §1.302-1, 1.346-2. (Secs. 302, 346, '86 Code.)

Rev. Rul. 74-465, 1974-2 C.B. 114.

**346.121 Partial; family corporation; oral plan for transfer of realty.** To satisfy the managing officer's demands for control and to insulate real property from liability claims the owners of 72 percent of a family corporation, pursuant to an oral reorganization plan, exchanged their stock for the corporation's realty and immediately transferred the property to a newly formed corporation for all its stock. *Held*, the transfers were a single transaction constituting a tax-free reorganization rather than a taxable distribution in partial liquidation. (Secs. 112(b), 112(g), '39 Code; Secs. 354, 368, '86 Code.)

James G. Murrin, 24 T.C. 502, Acq., 1955-2 C.B. 7.

**346.122 Partial; mineral property distributed.** A corporation owns a tract of mineral land, which is leased, and also owns and operates a paper products business. The corporation proposes to distribute to stockholders the mineral tract subject to the mining lease. Such distribution by the corporation to its shareholder will be a dividend to the extent of earnings and profits of the corporation. §§1.301-1, 1.316-1, 1.346-1. (Secs. 301, 316, 346, '86 Code.)

Rev. Rul. 56-512, 1956-2 C.B. 173.

**346.123 Partial; payments on note assigned to shareholders.** The assignment by a corporation to its shareholders of the right to receive payments on a note received by the corporation from the purchaser of part of its business in a transaction qualifying as a partial liquidation under section 346(a)(2) is a distribution of the proceeds of the partial liquidation. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 77-166, 1977-1 C.B. 90.

**346.124 Partial; plan subsequently modified.** Where a corporation sells all of its operating properties and adopts a plan of complete liquidation, but, after the first distribution, modifies its plan to

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one of partial liquidation, distributions to stockholders during the year the plan was adopted or during the succeeding taxable year, which do not exceed the net proceeds derived from the sale of the properties, constitute distributions in partial liquidation. Clarified by Rev. Rul. 77-245 to provide that the stock surrendered was traded on an exchange. §§1.331-1, 1.346-1. (Secs. 331, 346; '86 Code.)

Rev. Rul. 59-240, 1959-2 C.B. 112; Rev. Rul. 77-245, 1977-2 C.B. 105.

**346.125 Partial; proceeds from redemption of cooperative stock.** Common stock that a corporation held in a cooperative to enable it to purchase products for resale and receive business-related services from the cooperative, and that was not entitled to dividends and could not be redeemed for more than its par value purchase price, was held for business and not for investment purposes. The corporation's distribution of the net proceeds from redemption of such stock in redemption of part of the corporation's stock under a plan of partial liquidation qualifies as a distribution in partial liquidation under section 346(a)(2). Rev. Rul. 60-322 distinguished. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 78-402, 1978-2 C.B. 138.

**346.126 Partial; redemption of stock; computation of earnings and profits.** The portion of a distribution in redemption of stock that is properly chargeable to the capital account and not treated as a distribution of earnings and profits includes not only the allocation portion of the capital paid in for stock as its tax basis but also the pro rata share of the other attributes including unrealized appreciated corporate surplus. (Secs. 302, 303, 312, 316, 346, 562; '86 Code.)

William D.P. Jarvis, 43 B.T.A. 439, Nonacq.; Woodward Investment Co., 46 B.T.A. 648, and F & R Lazarus & Co., 1 T.C. 292, Acqs. in result, 1970-2 C.B. xx-xxii; Herbert Enoch, 57 T.C. 781, Nonacq., 1974-1 C.B. 2.

**346.127 Partial; redemption of stock; condemnation proceeds.** Where certain amounts representing proceeds from the condemnation of property are distributed in redemption of corporate stock, such distribution does not qualify as a partial liquidation, where the condemnation did not result in a current decrease in corporate business and corporate operations can continue for a considerable period of time at the level maintained prior to condemnation. Since the corporation had accumulated earnings and profits in excess of the amount distributed, the entire amount of the pro rata distribution is taxable as a dividend. §§1.301-1, 1.346-1. (Secs. 301, 346; '86 Code.)

Rev. Rul. 67-16, 1967-1 C.B. 77.

**346.128 Partial; redemption of stock; debentures of controlled corporation.** Taxpayer and another were stockholders in X corporation which adopted a plan providing for the transfer of part of its assets to the newly formed Y corporation in exchange for Y's securities which were then transferred to the shareholders of X. In the subsequent days taxpayer purchased the other shareholder's shares in X, the securities of Y were transferred to the taxpayer, and Y redeemed all of its stock held by the other shareholder. *Held*, the transaction was a partial liquidation, not a distribution equivalent to a dividend. (Secs. 112(b), 112(g), 115(c), 115(g), '39 Code; Secs. 304, 331, 332, 368, '86 Code.)

Giles E. Bullock, 26 T.C. 276, Acq., 1957-2 C.B. 4.

**346.129 Partial; redemption of stock; determination of number of shares.** The number of shares of stock considered redeemed in a partial liquidation, regardless of the number of shares actually surrendered, is computed based upon the fair market value of the stock of the distributing

corporation before and after the distribution. Determination of the number of shares, if the stock is traded on an exchange, is computed under Rev. Rul. 59-240; if the stock is not traded under circumstances necessary to realistically establish its fair market value, it is necessary to value the stock by valuing the underlying assets, and the number of shares considered redeemed is computed under Rev. Rul. 56-513. Rev. Ruls. 56-513 and 59-240 clarified. §§1.331-1, 1.346-1, 1.1001-1. (Secs. 331, 346, 1001; '86 Code.)

Rev. Rul. 77-245, 1977-2 C.B. 105.

**346.130 Partial; redemption of stock; earnings and profits; capital account computations.**

For purposes of determining the portion of a redemption distribution described in section 302(b) that is properly chargeable to the capital account of a corporation incorporated after March 1, 1913, the ratio between the charge to capital and the capital prior to retirement is the same as the ratio between the number of shares retired and the number of shares outstanding prior to retirement, and the balance of the redemption distribution is charged to earnings and profits. Rev. Rul. 70-531 revoked. §§1.302-1, 1.303-1, 1.312-5, 1.316-2. (Secs. 302, 303, 312, 316; '86 Code.)

Rev. Rul. 79-376, 1979-2 C.B. 133; William D.P. Jarvis, 43 B.T.A. 439, Nonacq. withdrawn and Acq. substituted; Ronald D. Anderson, 67 T.C. 522, Acq., 1979-2 C.B. 1.

**346.131 Partial; redemption of stock; life insurance proceeds.**

The redemption of a portion of capital stock of a corporation held by the estate of a deceased stockholder, pursuant to an agreement whereby the proceeds of life insurance policies will be used by the corporation to redeem the capital stock held by his estate, in case of death, will constitute a partial liquidation. The total amount received by the estate upon surrender of the stock will be treated as in payment in exchange for the stock and gain or loss will be capital gain or loss. The excess of the insurance proceeds received by the corporation over the sum of the premiums paid will constitute earnings and profits available for distribution. §39.115(c)-1. (Sec. 115(c), '39 Code; Sec. 331, '86 Code.)

Rev. Rul. 54-230, 1954-1 C.B. 114.

**346.132 Partial; redemption of stock; majority stockholder.**

Where a majority stockholder sells all of his stock to the corporation for a fixed amount payable in installments and resigns as officer and director, but remains in the employ of the corporation for a limited time to train key employees, the redemption by the corporation of such shares constitutes a distribution in partial liquidation to the extent that the distribution does not exceed the fair market value of the stock redeemed. §§39.115(c)-1, 39.115(g)-1. (Secs. 115(c), 115(g), 115(i), '39 Code; Secs. 302, 312, '86 Code.)

Rev. Rul. 54-408, 1954-2 C.B. 165.

**346.133 Partial; redemption of stock; minority shareholder.**

A retired minority stockholder-employee, desiring diversification of his stock holdings, initiated a transaction whereby the corporation received and cancelled shares of its stock in exchange for shares of stock it held for investment. *Held*, the transaction was a partial liquidation, not a sale of the stock, and no gain was realized by the corporation. (Secs. 22(a), 115(c), 115(i), '39 Code; Secs. 61, 312, 331, '86 Code.)

Union Starch & Refining Co., Inc., 31 T.C. 1041, Acq., 1959-1 C.B. 5.

**346.134 Partial; rental property for stock.**

Where a corporation distributes its rental property, the income from which was less than two percent of the corporation's gross income during a five year period, to its sole stockholder in exchange for a portion of his stock in the corporation, the transaction is neither a contraction of the corporate

business, nor a termination of a separate trade or business. Such distribution is treated as essentially equivalent to a dividend to the extent of the corporation's earnings and profits. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 57-333, 1957-2 C.B. 239.

**346.135 Partial; rental property for stock.** A corporation engaged in the real estate business owned three separate parcels of rental real estate, two of which were owned for more than 5 years. The distribution of one of the parcels owned more than 5 years by the corporation to its shareholders in exchange for a portion of their stock of the corporation constitutes a distribution in partial liquidation. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 57-334, 1957-2 C.B. 240.

**346.136 Partial; ruling request; checklist.** A revised checklist sets forth the information to be included in a request for a ruling under section 346 with respect to distributions in partial liquidation. Rev. Proc. 73-36 superseded. §1.346-1. (Sec. 601.201, S.P.R.; Sec. 346, '86 Code.)

Rev. Proc. 81-42, 1981-2 C.B. 611.

**346.137 Partial; sale of stock v. sale of assets.**

Taxpayers wanted to sell their stock in a corporation they controlled. An unrelated corporation was interested only in the assets of a wholly-owned subsidiary. The subsidiary liquidated, distributing its assets to the parent. The parent sold a debenture bond to the unrelated corporation, which purchased the majority of the parent's stock, paying with cash and the debenture. Pursuant to the purchase agreement, the stock was immediately surrendered in exchange for the desired assets. *Held*, the transaction was a distribution in partial liquidation, not a sale of assets. (Sec. 115(c), '39 Code; Sec. 331, '86 Code.)

Standard Linen Service, Inc., 33 T.C. 1, Acq., 1960-2 C.B. 7.

**346.138 Partial; sale proceeds reinvested.**

The temporary investment by a corporation of the proceeds from the sale of a part of a business for the purpose of preserving the funds will not prevent that portion from qualifying as a distribution in partial liquidation. Rev. Ruls. 58-565 and 67-299 distinguished. Amplified by Rev. Rul. 76-279. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 71-250, 1971-1 C.B. 112.

**346.139 Partial; sale proceeds reinvested.**

Examples illustrate the treatment, under section 346(a)(2), of distributions to shareholders of the proceeds from the sale of part of a corporation's business that were temporarily invested by the corporation to preserve the funds and the investment resulted in a profit or a loss. Rev. Rul. 71-250 amplified. §§1.301-1, 1.346-1. (Secs. 301, 346; '86 Code.)

Rev. Rul. 76-279, 1976-2 C.B. 99.

**346.140 Partial; sale proceeds used in business.**

A real estate corporation adopted a plan of partial liquidation. It sold one of its parcels of real estate and used the sales proceeds to renovate some of its remaining property. Shortly thereafter, the corporation distributed an amount equal to the sales proceeds to its shareholders in redemption of some of its stock. *Held*, this distribution does not qualify as a distribution resulting from a genuine contraction of the corporate business. Distinguished by Rev. Rul. 71-250. §1.346-1. (Sec. 346, '86 Code.)

Rev. Rul. 67-299, 1967-2 C.B. 138.

**346.141 Partial; stock in other corporations**

**distributed to shareholders.** A corporation distributed stock in two other corporations to its stockholders as a dividend and simultaneously reduced the par value of its outstanding common stock. *Held*, the distribution was not a partial liquidation, and the corporation's earnings and profits

were sufficient to cover the distribution. (Sec. 115(i), '39 Code; Sec. 312, '86 Code.)

Avco Manufacturing Corp., 25 T.C. 975, Acq., 1957-1 C.B. 3.

**346.142 Partial; subsidiary's assets distributed; intercompany indebtedness.** The amount of a distribution in partial liquidation by a corporation to its shareholders that resulted from the complete liquidation of a subsidiary does not include the portion of the distribution attributable to the subsidiary's indebtedness to the parent that was cancelled upon the liquidation. Rev. Rul. 75-223 distinguished. §1.346-1. (Sec. 346, '86 Code.) Rev. Rul. 77-375, 1977-2 C.B. 106.

**346.143 Partial; unstated interest.** The provisions of section 483, relating to unstated interest, do not apply to a distribution in partial liquidation of a corporation as defined in section 346(a)(1). §§1.346-1, 1.483-1. (Secs. 346, 483; '86 Code.) Rev. Rul. 74-89, 1974-1 C.B. 125.

**346.144 Partnership.** Any gain or loss realized on partial or complete liquidation of a partnership is a capital gain or loss. Annual assessments, representing a proportionate part of his share of the firm's profits, paid by a partner to replenish capital, are capital contributions which increase the basis of his interest, provided that the tax is paid thereon. §§39.113(a)(13)-2, 39.117(a)-1. (Secs. 113(a), 117(a), '39 Code; Secs. 1021, 1221, '86 Code.)

Rev. Rul. 56-5, 1956-1 C.B. 630.

**346.145 Partnership; assets purchased by former partners.** As a result of litigation among equal partners of a five-man partnership, the court ordered all assets of the partnership to be sold at a judicial sale. Three of the five partners bought all of the assets and continued operation of the business. Each of the other two partners received a share of the sale proceeds in liquidation of his 20 percent interest. Under the provisions of section 708(b), the partnership did not terminate. *Held*, the transaction will not be treated as a sale of partnership assets to the three remaining partners, but will be considered as a sale or liquidation of the partnership interest of the two withdrawing partners depending upon the facts and circumstance of the particular case. §1.707-1. (Sec. 707, '86 Code.)

Rev. Rul. 66-264, 1966-2 C.B. 248.

**346.146 Partnership; distribution; inventory appreciated in value.** Where, in liquidation of his interest in a partnership, a partner receives a distribution in kind of his proportionate share of partnership assets which would otherwise be considered inventory items which have appreciated substantially in value, such distribution is not a sale or exchange of such assets subject to section 751 of the Code. §§1.731-1, 1.751-1. (Secs. 731, 751; '86 Code.)

Rev. Rul. 57-68, 1957-1 C.B. 207.

**346.147 Partnership; distribution of stock interests.** The transfer by partners of certain of their stock holdings to a partnership, immediately followed by a distribution in complete liquidation of the partnership assets, constitutes a single integrated transaction resulting in a taxable exchange of stock interests among the individual partners. §1.731-1. (Sec. 731, '86 Code.)

Rev. Rul. 57-200, 1957-1 C.B. 205.

**346.148 Partnership; merger.** Where three partnerships merge, the terminating partnerships are treated as having contributed all of their assets and transferred their liabilities to the continuing partnership in exchange for interests in such partnership that are distributed to the respective partners of the terminating partnerships in liquidation of their interests. The basis of the partnership interests acquired in the resulting partnership is

determined under section 732(b). §1.708-1. (Sec. 708, '86 Code.)

Rev. Rul. 68-289, 1968-1 C.B. 314.

**346.149 Partnership; non-pro rata distribution; section 751 property.** Section 751(b) applies to a non-pro rata distribution of section 751 property in complete liquidation of a two person partnership so that, to the extent either partner receives section 751 property in exchange for other partnership property or receives other partnership property in exchange for section 751 property, the distribution is considered as a sale or exchange of property between the distribute partner and the partnership that consisted, after the distribution, of a single individual. §1.751-1. (Sec. 751, '86 Code.)

Rev. Rul. 77-412, 1977-2 C.B. 223.

**346.150 Pension liability assumed by former stockholders.** A corporate liability for unpaid pensions assumed by former stockholders upon liquidation reduces the actual amount received by the former stockholders upon the corporate liquidation and either reduces the amount of gain or increases the amount of loss for each former shareholder. The corporation may not deduct the commuted value of the unpaid pensions in its final return. §§1.162-10, 1.404(a)-1, 1.1001-1. (Secs. 162, 404, 1001; '86 Code.)

Rev. Rul. 59-228, 1959-2 C.B. 59.

**346.151 Personal holding companies; distribution of property.** A personal holding company which wishes to designate all or a part of a distribution in complete liquidation as a dividend to a shareholder will meet the requirements of section 316(b)(2)(B)(ii) if it designates such amount as a dividend on its Form 1099 filed with the Service and also notifies the shareholder of the dividend payment in a written statement. §§1.316-1, 1.6042-4. (Secs. 316, 6042; '86 Code.)

Rev. Rul. 65-39, 1965-1 C.B. 153.

**346.152 Personal holding companies; "one month" distribution.** The method for liquidating a personal holding company under section 333 is outlined where the actual distribution of the company's many securities to its shareholders within one month is impossible. §1.333-1. (Sec. 333, '86 Code.)

Rev. Rul. 56-286, 1956-1 C.B. 172.

**346.153 Preexisting deficit.** A corporation having a preexisting deficit will be entitled to a dividends paid credit only to the extent that distributions in complete or partial liquidation from current year's earnings exceed such preexisting deficit. I.T. 3067 revoked. §39.27(g)-1. (Sec. 27(g), '39 Code; Sec. 562, '86 Code.)

Rev. Rul. 54-71, 1954-1 C.B. 71.

**346.154 Puerto Rican manufacturing corporation; investments from sale of assets.** Income derived from the sale of a Puerto Rican manufacturing corporation's assets that was invested in stocks and bonds subsequently distributed in complete liquidation is not income from the active conduct of a trade or business. §1.957-3. (Sec. 957, '86 Code.)

Rev. Rul. 72-150, 1972-1 C.B. 219.

**346.155 Purchase-liquidation; basis of property.** The basis of property acquired through purchase of stock of several unrelated corporations, followed by liquidation of such corporations, is the amount paid for the stock, since this acquisition is in substance a purchase of assets and not a "distribution incomplete liquidation" of the other corporations, notwithstanding that such assets constituted a going business and were not integrated into a pre-existing business of the purchaser. The *M. O. J. Corp.* decision followed. §§39.112(b)(6)-1, 39.113(a)(15)-1. (Secs.

112(b), 113(a), '39 Code; Secs. 332, 334, '86 Code.)

Rev. Rul. 60-246, 1960-2 C.B. 462.

**346.156 Ranching corporation; sale of breeding livestock.** In a liquidation under section 337, no capital gain or loss will be recognized to a ranching corporation on the sale of its breeding livestock since they are not properly included in the inventory if on hand at the year's end, even though the corporation had consistently so included them. §§1.337-3, 1.471-6. (Secs. 337, 471; '86 Code.)

Rev. Rul. 64-239, 1964-2 C.B. 93.

**346.157 Recovery of previously deducted amounts; subsidiary's assets distributed; accounting method.** Neither the market value of an unharvested crop and land preparation made for later planting nor the expenses incurred in producing the unharvested crop and preparing the land are includable in the income of a corporation, under section 446(b), in the year of its liquidation to which section 336 applies. (Secs. 446, 482; '86 Code.)

South Lake Farms, Inc., 36 T.C. 1027, Nonacq., 1977-1 C.B. 2.

**346.158 Recovery of previously deducted amounts; subsidiary's assets distributed to parent.** A subsidiary corporation liquidated into its parent corporation in a nontaxable transaction under sections 332 and 334(b)(2), to which section 336 also applies, is required under the "tax benefit rule" to include in its gross income in the year liquidated the allocated value of incidental supplies it distributed to its parent for which a deduction had been taken in the previous year resulting in a full tax benefit. Similar treatment applies to similar distributions in full or partial liquidations governed by sections 331, 333, and 346 but not to acquisitions under section 381(a)(1). §§1.61-1, 1.111-1, 1.331-1, 1.332-1, 1.333-1, 1.334-1, 1.336-1, 1.346-1, 1.381(a)-1. (Secs. 61, 111, 331, 332, 333, 334, 336, 346, 381; '86 Code.)

Rev. Rul. 74-396, 1974-2 C.B. 106.

**346.159 Recovery of previously deducted amounts; subsidiary's assets distributed to parent.** The tax benefit rule described in Rev. Rul. 74-396 is applicable to liquidations under section 336; the position of the Service with respect to *South Lake Farm, Inc.* is explained. §§1.111-1, 1.334-1. (Secs. 111, 334; '86 Code.)

Rev. Rul. 77-67, 1977-1 C.B. 33.

**346.160 Recovery of previously deducted amounts, assets distributed to shareholders.** A corporation does not recognize income with respect to amounts paid to its shareholders for taxes for which they were liable but that were paid by the corporation. However, a corporation does recognize income with respect to the distribution of expensed asset on liquidation. §§1.164-7, 1.336-1. (Secs. 164, 336; '86 Code.)

Hillsboro National Bank, 460 U.S.--, Ct. D. 2015, 1983-1 C.B. 50.

**346.161 Regulated investment company; dividends.** Capital gains dividends received from a regulated investment company by a corporate shareholder that is in the process of complete liquidation are not excludable under section 337(a). §§1.337-1, 1.852-4. (Secs. 337, 852; '86 Code.)

Rev. Rul. 69-18, 1969-1 C.B. 188.

**346.162 Regulations under section 1504; effective date.** For purposes of section 332(b)(1), regulations under section 1504(a)(5)(A) and (B) will not be effective with respect to plans of liquidation adopted on or before the date proposed regulations are published in the Federal Register; for purposes of old section 337, such regulations will not be effective with respect to a plan of liquidation adopted by the selling corporation on or before the date proposed regulations are published; and for purposes of section 338(d)(3), such

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regulations will not be effective for purchases made during any 12-month acquisition period beginning on or before the date proposed regulations are published.

Notice 87-63, 1987-2 C.B. 375.

### 346.163 Reincorporation v. reorganization.

Taxpayer liquidated his wholly-owned corporation, operated the business as a proprietorship, then for valid business reasons, created a new corporation to which the proprietorship assets were transferred. *Held*, the distribution from the original corporation was not boot arising out of a reorganization and was not taxable as a dividend but was in complete liquidation of the corporation. (Sec. 331, '86 Code.)

William C. Kind, 54 T.C. 600, Acq., 1970-2 C.B. xx.

### 346.164 Reorganizations; sale of corporate assets to new corporation.

A corporation's transfer of its assets to a newly formed corporation for 45 percent of the new corporation's stock, long-term notes, and cash followed by liquidation of the "selling" corporation constitutes a reorganization rather than a transaction governed by sections 337 and 331, and the cash and long-term notes received by the shareholders represents a dividend under section 301. Rev. Rul. 56-541 revoked. §§1.331-1, 1.337-1, 1.368-1, 301.7805-1. (Secs. 331, 337, 368, 7805; '86 Code.)

Rev. Rul. 61-156, 1961-2 C.B. 62.

### 346.165 Retention of charter; protection of corporate name.

Where a corporation ceases business operations, has retained no assets, has no income, and has actually liquidated within one calendar month, there is in effect a de facto dissolution even though the corporation has not been formally dissolved. Accordingly, the mere retention of the charter of the liquidating corporation, for a purpose such as the protection of the corporate name, does not prevent the liquidation from coming under the provisions of section 112(b)(7) of the '39 Code. Distinguished by Rev. Rul. 60-50. §39.112(b)(7)-1. (Sec. 112(b), '39 Code; Sec. 333, '86 Code.)

Rev. Rul. 54-518, 1954-2 C.B. 142.

### 346.166 Retention of charter; reactivation of business.

A disposition of all the assets of a corporation, retaining its corporate charter, pursuant to a plan of liquidation adopted within the 12-month period preceding such disposition which is followed by the immediate reactivation of the corporation in another business by its former shareholder constitutes a partial liquidation. Gain or loss is recognized to the corporation on sales of its property after the adoption of the plan of liquidation. Rev. Rul. 54-518 distinguished. §§1.331-1, 1.337-1, 1.1002-1. (Secs. 331, 337, 1002; '86 Code.)

Rev. Rul. 60-50, 1960-1 C.B. 150.

### 346.167 Sale of assets; advance coal royalties.

Advance royalty payments received in 1977 by a calendar-year corporation, subsequent to the adoption of a plan of complete liquidation, for coal that is mined on land it has owned for more than 9 months qualify as payments received from a "sale or exchange" of property for purposes of section 337(a). However, if the right to mine coal under the contract expires, terminates, or is abandoned before the coal is mined, the corporation must treat the payments attributable to the unmined coal as ordinary income. §§1.337-1, 1.631-3. (Secs. 337, 631; '86 Code.)

Rev. Rul. 77-109, 1977-1 C.B. 87.

### 346.168 Sale of assets; gain or loss.

A corporation, organized to develop and market a disposable toothbrush, that liquidated after attempts to market its product failed was not a "collapsible corporation" and nonrecognition of gain on the sale of

its assets under section 337 was properly elected. (Sec. 337, 341; '86 Code.)

F.T.S. Associates, Inc., 58 T.C. 207, Acq., 1972-2 C.B. 2.

### 346.169 Sale of assets to shareholder; proceeds to purchaser-shareholder and others.

The arms-length sale of a corporation's assets to a shareholder who owned 50 percent of its stock, as provided for in a plan of complete liquidation adopted because of irreconcilable disagreements between the purchasing shareholder and the other shareholders, followed by a pro rata distribution of the sale proceeds to all shareholders, qualifies for non-recognition of gain or loss. §1.337-1. (Sec. 337, '86 Code.)

Rev. Rul. 73-551, 1973-2 C.B. 112.

### 346.170 Sale of corporate assets; recovery of previously deducted amounts.

Where a corporation, under a plan of complete liquidation, sold to a single buyer all of its assets, including certain items from which the taxpayer derived full tax benefits through deductions in prior taxable years, that portion of the proceeds representing recovery of previously deducted items is ordinary income to the corporation and not proceeds of a nontaxable sale. §§1.61-1, 1.337-1. (Secs. 61, 337; '86 Code.)

Rev. Rul. 61-214, 1961-2 C.B. 60.

### 346.171 Sale of corporation's remaining business.

A corporation did not realize any gain or loss from the sale of its remaining business where the sale occurred and the corporation was liquidated within twelve months from the date the stockholders adopted the plan of complete liquidation. The sale of a part of the corporation's assets and business was made at a loss at a time when liquidation was not contemplated. §1.337-2. (Sec. 337, '86 Code.)

Rev. Rul. 57-140, 1957-1 C.B. 118.

### 346.172 Sale of LIFO inventory; "tax benefit rule."

A corporation which, in a bulk sale to one person pursuant to a plan of complete liquidation under section 337, sold appreciated inventory accounted for under the LIFO dollar-value method is not required under the "tax benefit rule" to include such appreciation in income. §§1.337-1, 1.472-8. (Secs. 337, 472; '86 Code.)

Rev. Rul. 74-431, 1974-2 C.B. 107.

### 346.173 Sale of property; covenant not to compete.

The nonrecognition provisions of section 337 do not apply to the amount received on the sale of its business by a liquidating corporation for the portion of the sale price specifically allocated to a covenant not to compete that was separately bargained for and clearly severable from goodwill. §1.337-3. (Sec. 337, '86 Code.)

Rev. Rul. 74-29, 1974-1 C.B. 79.

### 346.174 Sale of property; effect on earnings and profits.

Realized but unrecognized gain from the sale of a corporation's assets pursuant to a plan of liquidation does not serve to increase the corporation's earnings and profits for the year. §§1.312-7, 1.337-1. (Secs. 312, 337; '86 Code.)

Rev. Rul. 76-239, 1976-1 C.B. 90.

### 346.175 Sale of property; mortgage servicing contracts.

The Service will follow the *John T. Stewart III Trust* decision holding that the sale of rights to service real estate mortgage contracts, under which no services had been performed prior to the sale, by a liquidating mortgage banking corporation, which was not a collapsible corporation, was a sale of property to which the nonrecognition provisions apply. §1.337-3. (Sec. 337, '86 Code.)

Rev. Rul. 77-190, 1977-1 C.B. 88; *John T. Stewart III Trust*, 63 T.C. 682, Acq., 1977-1 C.B. 1.

### 346.176 Sale of securities prior to liquidation.

Three days prior to the formal adoption of a plan

of liquidation, the taxpayer, in anticipation of the adoption, sold some Government securities at a loss. *Held*, the loss is recognized because the plan of liquidation was adopted when approved by the stockholders and not at any prior date. (Sec. 337, '86 Code.)

The City Bank of Washington, 38 T.C. 713, Nonacq., 1964-2 C.B. 8.

### 346.177 Sale of securities purchased during liquidation period.

Pursuant to a plan of complete liquidation, a group of corporations sold all their assets and during the remainder of the 12-month period and while awaiting final distribution, bought and sold securities. *Held*, the gain realized on the sale of the securities is not recognized at the corporate level. (Sec. 337, '86 Code.)

Frank W. Verito, 43 T.C. 429, Acq., 1965-2 C.B. 7.

### 346.178 Sale of stock; transfer of assets to new corporation.

Taxpayers gave cash and notes for the stock of a corporation which they liquidated, distributing the assets to themselves and turn to a new corporation in exchange for notes and the assumption of the original stock purchase liability. *Held*, the interrelated steps constituted a single transaction which was not a reorganization but a purchase of the old corporation's assets resulting in a cost basis to the new corporation.

*Further held*, the issuance of notes and assumption of liability were in payment for assets and were not dividends. (Secs. 112(g), 113(a), 115, '39 Code; Secs. 316, 368, 1012, '86 Code.)

James F. Suter, 29 T.C. 244, Acq., 1958-2 C.B. 8.

### 346.179 Satisfaction of indebtedness; stockholder-creditors.

Shareholders of a close corporation caused the corporation to sell certain assets for notes and an assumption of debts to them for unpaid compensation. The notes were pledged with a bank which collected and applied the proceeds to the shareholders' accounts. The corporation then distributed its timberlands to shareholders. The corporate charter was surrendered in 1953. *Held*, the transaction was a completed liquidation in 1952; the shareholders properly treated the timberlands as a stock liquidation payment and the loan proceeds as ordinary income in the year of actual receipt to the extent of the corporation's debt and payment for stock to the extent of any excess. (Sec. 115(c), '39 Code; Sec. 331, '86 Code.)

O.D. Bratton, 31 T.C. 891, Acq., 1964-2 C.B. 4.

### 346.180 Savings and loan association.

The acquisition, by a Federally chartered nonstock savings and loan association, of all the assets and liabilities of a State chartered savings and loan association having outstanding capital stock does not constitute a reorganization under either section 368(a)(1)(A) or 368(a)(1)(C). However, the stock association may avail itself of the provision of section 337 if the liquidation meets the requirements of that section. Amounts distributed by the stock association to its shareholders in complete liquidation will be treated as distributions in full payment in exchange for their stock under section 331(a)(1). Further, to the extent that the stock association's additions to its reserve for bad debts resulted in a tax benefit for prior years, the balance in such reserves must be included by it in gross income for the final year of its existence. §§1.166-1, 1.331-1, 1.368-1. (Secs. 166, 331, 368; '86 Code.)

Rev. Rul. 69-6, 1969-1 C.B. 104.

### 346.181 Second plan adopted; first plan rescinded.

A plan of complete liquidation maybe rescinded and a second plan may be adopted where no sale was effected and no liquidating distribution made pursuant to the first plan. The rescission and subsequent adoption of the second plan will not be given separate effects unless the facts and circumstances show that the first plan was

actually abandoned, and not merely extended. Where the first plan was actually abandoned, the 12-month period will commence on the date the second plan is adopted. §1.337-1. (Sec. 337, '86 Code.)

Rev. Rul. 67-273, 1967-2 C.B. 137.

**346.182 Small business corporation; gain on sale of assets.** A corporation, operating as an electing small business corporation for the last two of its three years of existence, that sold its principle asset pursuant to a plan of complete liquidation described in section 337 and distributed all its assets to shareholders within 12 months of the date of adoption of the plan is not subject to the tax imposed by section 1378 on gain realized on the sale, and no part of the gain is includable in the shareholders' gross income under sections 1373 and 1375. However, under section 1001, the shareholders will realize gain on the liquidation to the extent the amounts distributed exceed the adjusted basis of their stock. §§1.337-1, 1.1373-1, 1.1375-1, 1.1378-1. (Secs. 337, 1373, 1375, 1378; '86 Code.)

Rev. Rul. 78-89, 1978-1 C.B. 272.

**346.183 State income taxes; deductibility.** Gain realized by a corporation from the sale or exchange of property pursuant to a plan of complete liquidation, and not recognized for Federal tax purposes by virtue of sections 332 and 337, is not wholly exempt from tax under section 265; therefore, state income tax paid on such gain is a deductible expense. *Bertha Gassie McDonald* and *Universal Leaf Tobacco Co.* decisions followed. Rev. Rul. 60-236 revoked. §§1.164-1, 1.265-1, 1.337-1. (Secs. 164, 265, 337; '86 Code.)

Rev. Rul. 63-233, 1963-2 C.B. 113.

**346.184 Stock acquisition date.** Stock that was received after 1953 by a personal holding company in a distribution taxable as a dividend under section 301(b)(1)(B), but that is considered to have been held since prior to 1954 under section 1223(2), was acquired after December 31, 1953 for purposes of section 333(e)(2) and (f)(1), and the value of such stock must be taken into account in determining shareholders' gain on the liquidation of the personal holding company. §1.3334. (Sec. 333, '86 Code.)

Rev. Rul. 78-350, 1978-2 C.B. 135.

**346.185 Stock acquisition date; section 333 liquidation.** Where stock is acquired in the surviving corporation by certain corporate stockholders of a merged corporation, the acquisition date of the stock of the surviving corporation, for purposes of sections 333(e)(2) and 333(f)(1), is the date of acquisition of the stock of the merged corporation surrendered in the exchange. Distinguished by Rev. Rul. 64-257, relating to stock received in a complete liquidation of a foreign corporation. §1.354-1. (Sec. 354, '86 Code.)

Rev. Rul. 56-171, 1956-1 C.B. 179.

**346.186 Stock acquisition date; section 333 liquidation.** Stock, distributed by a liquidating corporation to its noncorporate shareholders under section 333, which had been acquired in 1957 through a nontaxable reorganization from a foreign corporation which had held it before January 1, 1954, is considered acquired after December 31, 1953, and is treated as equivalent to cash in computing the recognized gain to each shareholder, because the stock was first acquired by the liquidating corporation in 1957 from a foreign predecessor which could not qualify for treatment under section 333. Rev. Rul. 56-171 distinguished. §1.333-4. (Sec. 333, '86 Code.)

Rev. Rul. 64-257, 1964-2 C.B. 91.

**346.187 Subsequent to replacement of property involuntarily converted.** The fact that a corporation adopts a plan of liquidation subsequent to its election to replace property involuntarily con-

verted and before the property is replaced will not preclude the nonrecognition of gain provided the replacement is completed prior to the expiration of the replacement period and before completion of the corporate liquidation. Amounts distributed to stockholders in redemption of their stock are distributions in full payment in exchange for such stock. (Secs. 331, 337, 1001, 1033; '86 Code.)

Rev. Rul. 55-517, 1955-2 C.B. 297.

**346.188 Subsidiary; acquired for assets.** A corporation's acquisition of all the outstanding stock of another corporation in exchange for its stock followed, as part of an overall plan, by the complete liquidation of the acquired corporation constitutes a reorganization under section 368(a)(1)(C) and not 368(a)(1)(B). The limitation provisions under section 382(b) apply to the carry-over of a net operating loss. §§1.368-1, 1.381(a)-1, 1.382(b)-1. (Secs. 368, 381, 382; '86 Code.)

Rev. Rul. 67-274, 1967-2 C.B. 141.

**346.189 Subsidiary; adjustment to basis of stock.** "Cash and its equivalent", regarding the adjusted basis of property distributed in a complete liquidation of a subsidiary corporation, includes cash, currency, bank deposits (including time deposits) whether or not interest bearing, share accounts in savings and loan associations, checks (whether or not certified), drafts, money orders, and any other items of similar nature. It does not include accounts receivable (as the term is commonly used), inventories, marketable securities, and other similar current assets. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 66-290, 1966-2 C.B. 112.

**346.190 Subsidiary; basis of assets.** A corporation, after unsuccessful attempts to purchase a second corporation's assets, purchased all its outstanding stock, organized a wholly owned subsidiary and transferred the stock to it. The subsidiary then acquired the assets and liquidated the purchased corporation. *Held*, the series of steps constituted a single transaction to acquire the assets, the basis of which was the purchase price of the stock. (Secs. 112(b), 113(a), '39 Code; Secs. 332, 1012, '86 Code.)

Orr Mills, 30 T.C. 150, Acq., 1958-2 C.B. 7.

**346.191 Subsidiary; basis of assets.** A personal holding company "purchased," within the meaning of section 334(b)(3), all of the stock of a corporation having a wholly owned subsidiary on September 30, 1975, liquidated the parent on December 31, 1976, and liquidated the subsidiary on January 3, 1977. The personal holding company "purchased" the stock of the subsidiary on the date of liquidation of the parent. The "purchase" of the stock of the subsidiary did not occur within the 12-month period specified in section 334(b)(2)(B), and the basis in the subsidiary's assets to the personal holding company is determined under section 334(b)(1). §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 80-358, 1980-2 C.B. 110.

**346.192 Subsidiary; basis of assets distributed; obligation assumed by parent.** Costs incurred by a publishing corporation in fulfilling prepaid subscription contracts entered into by its former subsidiary, prior to acquisition and liquidation by the publishing corporation, must be capitalized and added to the basis of the assets acquired in the liquidation rather than currently deducted. Costs incurred in publishing copies of the same periodicals for sale at news stands, however, are currently deductible. §§1.162-1, 1.167(a)-3, 1.263(a)-2, 1.332-1, 1.344-1. (Secs. 162, 167, 263, 332, 334; '86 Code.)

Rev. Rul. 76-520, 1976-2 C.B. 42.

**346.193 Subsidiary; basis of distributed assets.** A corporation's acquisition of a controlling

stock interest in a subsidiary in exchange for property was not a purchase of the stock. No gain or loss is recognized on receipt by the parent of the assets distributed in complete liquidation of the subsidiary and the basis of the assets so received by the parent is the same as the basis of such assets in the hands of the subsidiary immediately prior to the liquidation. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 57-296, 1957-2 C.B. 234.

**346.194 Subsidiary; basis of property transferred; allocation.** The proper method is described for allocating the adjusted basis of the stock of a wholly owned subsidiary to its property, including accounts receivable, for purposes of determining the basis of that property in the hands of the parent when it is received by the parent in a liquidation of the subsidiary to which section 334(b)(2) applies. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 77-456, 1977-2 C.B. 102.

**346.195 Subsidiary; basis of property received in liquidation.** The basis of assets received by a corporation upon the complete liquidation of its wholly owned subsidiary, the stock of which was acquired for cash from persons who either directly or by attribution owned seventy-five percent of the stock of the acquiring corporation and after the acquisition individually owned less than fifty percent of the stock of the acquired corporation, is determined by reference to section 334(b)(1). The acquisition of the subsidiary's stock is treated as a distribution in redemption of stock of the acquiring corporation and a contribution of capital by the shareholders from whom the stock was acquired. Rev. Rul. 58-79 revoked. §§1.302-3, 1.304-2, 1.318-1, 1.332-2, 1.334-1, 301.7805-1. (Secs. 302, 304, 318, 332, 334, 7805; '86 Code.)

Rev. Rul. 77-427, 1977-2 C.B. 100.

**346.196 Subsidiary; basis of property transferred; indebted to parent.** A parent corporation's basis of property received, in satisfaction of an indebtedness, from a subsidiary undergoing complete liquidation, is the same as the basis of such property in the hands of the subsidiary. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 69-426, 1969-2 C.B. 48.

**346.197 Subsidiary; basis of property transferred; minority interest subsequently acquired.** Only the adjusted basis of the stock held by the parent immediately prior to the liquidation of a subsidiary is includable in determining the basis of the property received under section 334(b)(2). However, payments by the parent after the liquidation to minority shareholders of the subsidiary for their stock are treated as if in release of the liability assumed by the parent with respect to the minority shareholders, and the amounts so paid are included as part of the over-all basis of the property received by the parent. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 59-412, 1959-2 C.B. 108.

**346.198 Subsidiary; building and loan association; bad debt reserve carryover.** Section 593(f) is inapplicable to the liquidation of a wholly owned subsidiary by its parent, both being domestic building and loan associations, where the parent carries over the subsidiary's bad debt reserves under section 381. Accordingly, the subsidiary is not required to include in its gross income the balance in its reserves for bad debts at the date of liquidation. §§1.381(c)(4)-1, 1.593-10. (Secs. 381, 593; '86 Code.)

Rev. Rul. 69-374, 1969-2 C.B. 139.

**346.199 Subsidiary; business discontinued by parent.** A parent corporation is not required to continue in the business previously conducted by its wholly-owned subsidiary in order for the provisions of section 332 to apply to the subsidiary's liquidation. §1.332-1. (Sec. 332, '86 Code.)

Rev. Rul. 70-357, 1970-2 C.B. 79.

## Liquidations

**346.200 Subsidiary; cancellation of parent's note.** Distribution of a parent corporation's note in connection with the complete liquidation of its wholly owned subsidiary that had received the note as security for a loan to the parent is not income to the parent from the discharge of indebtedness under section 61(a)(12); the note is property for purposes of section 332(a) and no gain or loss is recognized to the parent on the receipt of the note. §§1.61-12, 1.332-2. (Secs. 61, 332; '86 Code.)

Rev. Rul. 74-54, 1974-1 C.B. 76.

**346.201 Subsidiary; distribution delayed.** The liquidation of a subsidiary corporation into its parent where, for good business reasons, the single liquidating distribution was delayed until three years after the plan was adopted qualifies as a liquidation under section 332. The basis of the property distributed is determined under section 334(b)(2). §§1.332-2, 1.334-1. (Secs. 332, 334; '86 Code.)

Rev. Rul. 71-326, 1971-2 C.B. 177.

**346.202 Subsidiary; distribution of assets.** Corporation Z purchased 80 percent of the stock of X, which had a large amount of cash, then caused X to sell its operating assets to the newly formed Y in return for debentures, cash, and the assumption of X's liabilities. X liquidated and Z received its assets which consisted mainly of the debentures and cash. The Commissioner argued substance over form due to a large gain that would forever escape taxation. *Held*, the transaction constituted a tax-free liquidation; the determination to liquidate was independently made after the taxpayer entered into the basic transaction. (Sec. 112(b), '39 Code; Sec. 332, '86 Code.)

Distributors Finance Corp., 20 T.C. 768, Acq., 1954-2 C.B. 4.

**346.203 Subsidiary; 80 percent control; adoption of plan.** A corporation owned less than 80 percent of the stock of a subsidiary prior to the redemption of the stock of the subsidiary's minority shareholders. Before the redemption the subsidiary's directors informed the minority shareholders of a possible future interest in liquidation, but no formal plan of liquidation was adopted until after the redemption. *Held*, the parent corporation met the 80 percent control requirement of section 332(b), and section 332 is elective in that, by taking appropriate actions, a corporation can render the section applicable or inapplicable. (Sec. 332, '86 Code.)

George L. Riggs, Inc., 64 T.C. 474, Acq., 1976-2 C.B. 2.

**346.204 Subsidiary; 80 percent control; purchase of individual shareholders' stock.** The 80-percent control requirement of section 332(b)(1) is met by a corporate shareholder, owning 50 percent of the stock of a corporation, that purchased all the remaining stock from individual shareholders and immediately thereafter adopted a plan of complete liquidation of the subsidiary. Rev. Rul. 70-106 distinguished. §1.332-2. (Sec. 332, '86 Code.)

Rev. Rul. 75-521, 1975-2 C.B. 120.

**346.205 Subsidiary; 80 percent control; redemption of minority shareholders' stock.** The liquidation of a subsidiary fails to meet the 80 percent control requirement under section 332(b) where a corporate shareholder owning 75 percent of the subsidiary's stock causes the subsidiary to redeem the minority shareholders' 25 percent interest therein before adopting a complete liquidation plan. Thus, all the shareholders of the subsidiary received a distribution in liquidation under section 331 and gain is recognized to the majority shareholder as well as gain or loss to the minority shareholders. Distinguished by Rev. Rul. 75-521. §§1.331-1, 1.332-2. (Secs. 331, 332; '86 Code.)

Rev. Rul. 70-106, 1970-1 C.B. 70.

**346.206 Subsidiary; foreign; aggregate stock ownership rules.** Two situations illustrate the effect of special aggregate stock ownership rules of reg. 1.1502-34 in determining whether section 332(b) of the Code applies to the liquidation of a foreign subsidiary corporation and section 351(a) applies to a transfer of property to a foreign corporation by members of an affiliated group. §§1.332-2, 1.351-1, 1.367-1, 1.1502-34. (Secs. 332, 351, 367, 1502; '86 Code.)

Rev. Rul. 70-141, 1970-1 C.B. 76.

**346.207 Subsidiary; foreign; aggregate stock ownership rules.** The aggregate stock ownership rules of reg. 1.1502-34 do not apply to prevent recognition of gain or loss under section 332 of the Code on a wholly owned foreign subsidiary's transfer of all of its assets, subject to liabilities, to its domestic parent's wholly owned domestic subsidiary which owns no stock of the foreign subsidiary and files a consolidated return with the parent. Amplified by Rev. Rul. 75-383. §§1.332-2, 1.1502-34. (Secs. 332, 1502; '86 Code.)

Rev. Rul. 74-598, 1974-2 C.B. 287.

**346.208 Subsidiary; foreign; assets transferred to domestic subsidiary.** The transfer of all the assets and liabilities of a wholly owned foreign subsidiary to its domestic parent's wholly owned domestic subsidiary qualifies as a reorganization within the meaning of section 368(a)(1)(D), provided the business purpose and continuity of interest requirements are met, and is a transaction for which an advance ruling is required under section 367. Rev. Rul. 74-598 amplified. §§1.354-1, 1.361-1, 1.367-1, 1.368-2. (Secs. 354, 361, 367, 368; '86 Code.)

Rev. Rul. 75-383, 1975-2 C.B. 127.

**346.209 Subsidiary; foreign; basis of assets; section 367 clearance.** A domestic parent of a wholly owned foreign subsidiary is not entitled to a stepped-up basis in the assets of the subsidiary upon receipt of such assets pursuant to liquidation of the subsidiary in what would be a section 332 nontaxable transaction except for failure to apply for and obtain clearance under section 367 of the Code. §§1.332-1, 1.367-1. (Secs. 332, 367; '86 Code.)

Rev. Rul. 64-177, 1964-1 (Part 1) C.B. 141.

**346.210 Subsidiary; foreign; first-tier; second-tier's stock sold.** Gain realized by a liquidating first-tier controlled foreign corporation on the sale of its stock in a second-tier controlled foreign corporation, which gain would not be recognized under section 337(a) if it were a domestic corporation, will not be includible in the first-tier corporation's gross income or constitute "foreign personal holding company income" for purposes of the foreign personal holding company provisions or the controlled foreign corporation provisions of the Code. §§1.337-1, 1.553-1, 1.952-2, 1.954-1. (Secs. 337, 553, 952, 954; '86 Code.)

Rev. Rul. 73-277, 1973-1 C.B. 296.

**346.211 Subsidiary; foreign; net operating loss carryover.** A net operating loss of a nonresident foreign subsidiary that had no U.S. income or deductions may not be carried over to the domestic parent upon the subsidiary's liquidation into the parent. §§1.172-2, 1.381(a)-1. (Secs. 172, 381; '86 Code.)

Rev. Rul. 72-421, 1972-2 C.B. 166.

**346.212 Subsidiary; foreign; Puerto Rico; business continued by parent.** The liquidation of one of two Puerto Rican subsidiaries by a domestic parent whereby the subsidiary's property is distributed to the parent in complete cancellation and redemption of the subsidiary's stock is subject to section 332, even though the parent will continue the subsidiary's business as a branch engaged in

the manufacture of the same product. §§1.332-1, 1.367-1. (Secs. 332, 367; '86 Code.)

Rev. Rul. 70-105, 1970-1 C.B. 70.

**346.213 Subsidiary; gain or loss on sale of assets.** A subsidiary, subsequent to the adoption of a plan of liquidation, sold some assets at a gain and some at a loss. The parent's basis in the assets was determined under section 334(b)(2). *Held*, under section 337(c)(2)(B), the subsidiary was entitled to compute gain and loss for each transaction rather than in the aggregate. (Sec. 337, '86 Code.)

United States Holding Co., 44 T.C. 323, Acq., 1966-2 C.B. 7.

**346.214 Subsidiary; holding period; assets received by parent corporation.** A parent corporation's holding period for property received from its subsidiary in a liquidation that qualified under section 332, and to which section 334(b)(2) applied in determining the parent's basis of the assets received, began one year prior to the liquidation on the date the parent acquired all of the subsidiary's stock. §§1.332-1, 1.334-1, 1.1223-1. (Secs. 332, 334; 1223; '86 Code.)

Rev. Rul. 74-522, 1974-2 C.B. 271.

**346.215 Subsidiary; indebtedness to parent.** A merger of a wholly owned subsidiary into its parent at a time when the subsidiary's indebtedness to the parent exceeded the fair market value of the subsidiary's assets does not qualify as a nontaxable distribution or tax-free reorganization, since no part of the transfer is attributable to the stock interest of the parent. The parent is entitled to a bad debt deduction. Amplified to provide that where a parent continues to operate the subsidiary's business as a branch it is entitled to the bad debt deduction and, in addition, is entitled to a deduction for loss on worthless stock of the subsidiary. §§1.165-5, 1.166-2, 1.332-2, 1.368-2. (Secs. 165, 166, 332, 368; '86 Code.)

Rev. Rul. 59-296, 1959-2 C.B. 87; Rev. Rul. 70-489, 1970-2 C.B. 53.

**346.216 Subsidiary; liquidated into parent after parent's contraction of business.** Due to adverse business conditions, the parent corporation ceased its dress manufacturing operations of 20 years, sold all of its operating assets to an unrelated party for cash and, within twelve months after adoption of the plan, paid its liabilities and distributed the cash from the sale to its shareholders in exchange for all but a nominal amount of the parent's stock. Immediately thereafter the parent's wholly owned subsidiary was liquidated into the parent in a transaction described in section 332 and the parent continued the retail department store business that the subsidiary had operated for 10 years. The transaction does not qualify as a complete liquidation. §§1.331-1, 1.337-1, 1.346-1. (Secs. 331, 337, 346; '86 Code.)

Rev. Rul. 74-544, 1974-2 C.B. 108.

**346.217 Subsidiary; liquidation followed by reincorporation.** The sale of a wholly owned subsidiary of one of its two businesses followed by an immediate distribution, under a plan of complete liquidation, of all of its assets, including the safes proceeds, to the parent which 13 days later reincorporated the retained business is in substance a partial liquidation of the subsidiary and not a complete liquidation. §§1.332-1, 1.346-1. (Secs. 332, 346; '86 Code.)

Rev. Rul. 76-429, 1976-2 C.B. 97.

**346.218 Subsidiary; merger followed by reincorporation.** The merger of a corporation into one owning more than 80 percent of its stock, pursuant to the laws of their respective states, and immediate transfer of the acquired corporation's assets and liabilities to a new wholly owned subsidiary is a reorganization within the meaning of sections 368(a)(1)(A) and 368(a)(2)(C). The transaction is not a liquidation under section 332. §§1.332-2, 1.368-2. (Secs. 332, 368; '86 Code.)

Rev. Rul. 69-617, 1969-2 C.B. 57.

**346.219 Subsidiary; net operating loss carryover.** Where a wholly owned, insolvent subsidiary distributes to its parent corporation all of its assets subject to all of its liabilities, the parent may not carryover and utilize the net operating losses of the subsidiary accumulated prior to the distribution. §§1.332-2, 1.381(a)-1. (Secs. 332, 381; '86 Code.)

Rev. Rul. 68-359, 1968-2 C.B. 161.

**346.220 Subsidiary; net operating loss carryover; indebted to parent.** Where a wholly owned subsidiary is indebted to its parent in an amount greater than the fair market value of its assets, a distribution of all the assets of the subsidiary to the parent in exchange for the cancellation of the indebtedness is not a "liquidation," nor is the parent entitled to succeed to the subsidiary's accumulated net operating loss carryover. §§1.61-12, 1.332-2, 1.381(a)-1. (Secs. 61, 332, 381; '86 Code.)

Rev. Rul. 68-602, 1968-2 C.B. 135.

**346.221 Subsidiary; nominal assets transferred to new subsidiary.** A transaction in which a parent corporation receives the assets of a subsidiary may qualify as a complete liquidation of the subsidiary within the meaning of section 332 even though the parent transfers a portion of these assets to a new subsidiary, provided the assets transferred to the new subsidiary are nominal in amount and are only for the purpose of protecting the corporate name. §1.332-2. (Sec. 332, '86 Code.)

Rev. Rul. 84-2, 1984-1 C.B. 92.

**346.222 Subsidiary; retention of property.** The retention of a subsidiary corporation of any property for the purpose of continuing the operation of its present business, or for the purpose of engaging in a new business, will prevent the distribution of the property that is actually distributed to its parent from qualifying as a distribution in complete liquidation. Rev. Rul. 66-186 superseded. §1.332-2. (Sec. 332, '86 Code.)

Rev. Rul. 76-525, 1976-2 C.B. 98.

**346.223 Subsidiary; ruling request.** A revised checklist sets forth the information to be included in a request for a ruling under sections 332 and 334 with respect to complete liquidations of subsidiaries. Rev. Proc. 73-17 superseded. §§1.332-1, 1.334-1. (Sec. 601.201, S.P.R.; Secs. 332, 334, '86 Code.)

Rev. Proc. 81-68, 1981-2 C.B. 723.

**346.224 Subsidiary; sale of assets.** Examples are provided to illustrate principles by which gain or loss is recognized to a parent corporation or to its wholly owned subsidiary where the assets of the subsidiary are sold under a plan of liquidation. §§1.332-1, 1.337-1. (Secs. 332, 337; '86 Code.)

Rev. Rul. 69-172, 1969-1 C.B. 99.

**346.225 Subsidiary; small business corporation.** The purchase by an electing small business corporation of all the stock of another corporation in order to acquire its assets will not terminate the acquiring corporation's election under section 1372 even though it became a member of an affiliated group that came into existence at that time if liquidation of the acquired corporation occurs within 30 days of the purchase of the stock. §§1.1371-1, 1.1372-1, 1.1504-1. (Secs. 1371, 1372, 1504; '86 Code.)

Rev. Rul. 73-496, 1973-2 C.B. 312.

**346.226 Subsidiary; stock acquired through exercise of option.** Factual situations in which an acquiring corporation obtained an option from individual shareholders of the acquired corporation to purchase their stock illustrate the starting date of the two-year period during which a plan of liquidation under section 332 must be adopted to qualify for the provisions of section 334(b)(2),

regarding the basis of assets received in the liquidation. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 74-295, 1974-1 C.B. 78.

**346.227 Subsidiary; stock safe after adoption of plan.** A corporation that owned over 90 percent of a subsidiary's stock sold some of the stock after the adoption of a plan of liquidation by the subsidiary's stockholders and prior to the liquidation. *Held*, the liquidation of the subsidiary was not a taxfree transaction and the loss sustained by the taxpayer on such liquidation is recognized. (Secs. 112(b), 115(c), '39 Code; Secs. 331, 332, '86 Code.)

Avco Manufacturing Corp., 25 T.C. 975, Non-acq., 1958-1 C.B. 7.

**346.228 Subsidiary's safe of assets.** A wholly owned domestic subsidiary of a foreign parent may not utilize the failure of the parent to secure an advance ruling under section 367 to consider the parent as not a corporation in order to avoid recognition of gain on the sale of an asset pursuant to a plan of complete liquidation. §§1.332-1, 1.337-1, 1.367-1. (Secs. 332, 337, 367; '86 Code.)

Rev. Rul. 76-90, 1976-1 C.B. 101.

**346.229 Subsidiary's subsidiary; basis of property transferred.** A wholly owned subsidiary distributed to its parent all of its wholly owned subsidiary's stock, the basis of which was greater than its fair market value. The distribution was followed immediately by a complete liquidation described in section 332(b) and occurring within 12 months of the parent's acquisition of the subsidiary. *Held*, the stock distribution was a purchase of the stock by the parent within the meaning of section 334(b)(3) and the parent's basis for the assets received in the liquidation is determined, pursuant to section 334(b)(2) by reference to its adjusted basis in the stock of the liquidated subsidiary. §1.334-1. (Sec. 334, '86 Code.)

Rev. Rul. 74-211, 1974-1 C.B. 76.

**346.230 Tax liability of liquidated transferor.** Payment by a transferee of the tax liability of a liquidated transferor and the receipt by the transferee of the transferor's tax refund, which under a nontaxable sales contract was reimbursed to the corporation which sold the stock of the transferor to the transferee, relate back to the sale of the stock and constitute nontaxable adjustments to the selling price. Interest paid on the tax liability and reimbursed by the seller of the stock, and interest received on the refund by the seller also constitute nontaxable adjustments to the selling price. Clarified by Rev. Rul. 83-73. §1.1012-1. (Sec. 1012, '86 Code.)

Rev. Rul. 58-374, 1958-2 C.B. 396.

**346.231 Unincorporated club; date of adoption of plan.** The date of adoption of a plan of complete liquidation by an unincorporated employees' club (treated as a corporation for tax purposes) for determining the 12-month period specified in section 337(a), was the date on which the plan was adopted by the board of directors, since the members of the club had no power to pass upon the plan of liquidation. §§1.331-1, 1.337-2. (Secs. 331, 337; '86 Code.)

Rev. Rul. 58-391, 1958-2 C.B. 139.

**346.232 Wholly owned corporation; condemnation award proceeds.** The nonrecognition-of-gain provisions are not available to a sole shareholder who, in the complete liquidation of his corporation following condemnation of its property, received the condemnation proceeds awarded the corporation and reinvested them in similar property. §1.1033(a)-2. (Sec. 1033, '86 Code.)

Rev. Rul. 73-72, 1973-1 C.B. 368.

**346.233 Wholly owned corporation; mortgage note distributed.** When pro rata installment

payments are received by an individual on a mortgage note (the obligor on which is a corporation) distributed to him in complete liquidation of his wholly owned corporation, gain will be realized on the principal element of each installment. This gain is equal to a percentage, determined by the number of installments, of the difference between the fair market value of the note when received by taxpayer and its face value. There being no original issue discount on the note as defined by section 1232(b)(1), and the note being a capital asset in taxpayer's hands, the gain on each installment is considered capital gain. §§1.334-1, 1.1232-1. (Secs. 334, 1232; '86; Code.)

Rev. Rul. 66-280, 1966-2 C.B. 304.