**Study Questions**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Shareholders** | | | | | | | | |
| **Shareholder** | |  | | **Mr. A** | | **Ms. B** | | **Ms. C** |
| **Number of Shares** | |  | | **50** | | **30** | | **20** |
| **FMV of Stock ($10/s)** | |  | | **$500** | | **$300** | | **$200** |
| **Tax Basis** | |  | | **$200** | | **$400** | | **$150** |
| **Potential BIG/BIL** | |  | | **$300** | | **($100)** | | **$50** |
| **Target’s Assets** | | | | | | | | |
|  |  | | **Tax Basis** | | **Fair Market Value** | | **Potential BIG/BIL** | |
| **Non-Operating Assets** |  | | **$200** | | **$300** | | **$100** | |
| **Operating Assets** |  | | **$700** | | **$900** | | **$200** | |
| **Totals** |  | | **$900** | | **$1,200** | |  | |
| **Other** | | | | | | | | |
| **25yr Bond Due to 3rd Party Lender** |  | | **($200)** | |  | | | |
| **E&P** |  | | **$400** | |

**For each of the alternatives listed below, please**

* **Analyze and determine whether the transaction(s) described constitutes a valid reorganization under section 368(a)(1).**
* **Explain the US federal income tax consequences to the parties. (A, B, C, T and P)**

**Target**

**P**

Mr. A

Stock Exchange

Ms. B

Ms. C

Public

1. **On January 2, P acquires all of the T common stock from Mr. A, Ms. B and Ms. C as a result of separate negotiations with each shareholder—solely in exchange for P voting preferred stock.**
2. **Same facts as #1, but P also purchases T bonds from 3rd Party Lender for $200 cash.**
3. **Same facts as #1, but P also swaps its own bonds for 3rd Party Lender’s bond in T.**
4. **Same facts as #1, but P also agrees to advance $100 in cash to T to pay T expenses.**
5. **Consider the impact on reorganization characterization if the following transactions occur:**

**JANUARY 2: P acquires Ms. C’s T stock for cash [20%]**

**JULY 1: P acquires Ms. B’s T stock for P voting stock [30%]**

**DECEMBER 1: P acquires all of Mr. A’s T stock for P voting stock [50%] AND**

* + - **Each transaction is separate;**
    - **Each transaction is part of a single plan;**
    - **The first transaction is separate and the last two are part of a single plan;**
    - **The first two are part of a plan and the last one is separate.**

1. **On January 2, T redeems Ms. B and Ms. C’s T stock for cash and notes. P then acquires all of Mr. A’s T stock solely in exchange for P voting stock worth $500.**

1. **On January 2, P acquires all the T stock from Mr. A, Ms. B and Ms. C solely in exchange for voting preferred stock of P. What tax consequences to the parties if the following transactions occur:** 
   * **Prior to the exchange, T pays a dividend of the T non-operating assets, pro rata to each of Mr. A, Ms. B and Ms. C.**
   * **P pays the costs of registering its common stock when Mr. A, Ms. B and Ms. C wish to sell such P stock received in the exchange.**
   * **P agrees to pay all transfer taxes arising from the exchange.**
   * **P agrees to pay all legal and accounting fees (incurred by T) associated with the transaction.**