**Class 4 Study Questions**

**Please refer to the base case facts in Class 2 to answer the following questions. Namely:**

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| **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 Third 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

Ms. B

Ms. C

1. **P is unwilling to assume T’s debts (e.g., the $200 bond due to Third Party Lender). Consequently, P cannot acquire T via a merger transaction. Instead the transaction is structured whereby T will transfer all of its assets to P in exchange for P’s non-voting preferred stock. T liquidates and distributes this stock to Mr. A, Ms. B and Ms. C.**
2. **Same facts as #1 above, except that instead of non-voting stock, P issues voting stock to T in exchange for T’s assets. However, the P stock only represents 1% of the overall stock in P.**
3. **Instead of the facts above, assume that P owns 70 percent of T (old and cold) and Ms. B owns the other 30%. T transfers all of its assets to P in exchange for P voting stock. Following this transfer, T liquidates and distributes the P stock to its two shareholders: 70% to P and 30% to Ms. B. What are the tax consequences to P, Ms. B and T? Is there a good reorganization?**
4. **Same general facts as #1, except that P issues $900 FMV of its voting stock to T which is distributed to A, B and C in liquidation. T sells $200 of its non-operating assets for cash and then uses the cash to pay off Third Party Lender.**
5. **Same general facts as #1, except that P provides the following consideration to T: $960 FMV of its voting stock, $40 cash and the assumption of the $200 bond (without issuing a new bond). T promptly liquidates and distributes the P stock and cash to A, B and C.**