

Figure 1
Examples - Sec. 351 Transfers to a Controlled Corporation

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Example 1: In exchange for 70% of the stock of Hamilton Corporation valued at \$70,000, James contributed land with an adjusted basis to him of \$36,000 and a fair market value of \$70,000. (The other 30% of the stock was issued to Jane for services.)

Realized Gain = \$70,000 - \$36,000 = \$34,000
Recognized Gain = \$34,000 (transaction does not meet 80% control test)
Basis of stock to James = \$70,000 (taxable exchange - use fair market value)
Basis of land to Hamilton = \$70,000 (taxable exchange - use fair market value)

Example 2: Assume the same facts as 1, except that the 30% stock interest issued to Jane was also for property. (Answer for James.)

Realized Gain = \$70,000 - \$36,000 = \$34,000
Recognized Gain = \$0 (Sec. 351 exchange, no boot received)
Basis of stock to James = \$36,000 (\$36,000 + 0 - 0)
Basis of land to Hamilton = \$36,000 (\$36,000 + 0)

Example 3: Assume the same facts as 2, except that James received stock worth \$60,000 and \$10,000 cash.

Realized Gain = (\$60,000 + \$10,000) - \$36,000 = \$34,000
Recognized Gain = \$10,000 (lesser of realized gain or \$10,000 boot received)
Basis of stock to James = \$36,000 (\$36,000 + \$10,000 gain - \$10,000 boot rec'd)
Basis of land to Hamilton = \$46,000 (\$36,000 + \$10,000 gain recog. by James)

Example 4: Assume the same facts as 2, except that Hamilton stock was worth \$40,000 and the land was subject to a \$30,000 mortgage, to be assumed by Hamilton Corporation.

Realized Gain = (\$40,000 + \$30,000) - \$36,000 = \$34,000
Recognized Gain = \$0 (liabilities assumed are not treated as boot for gain)
Basis of stock to James = \$6,000 (\$36,000 + \$0 - \$30,000 boot rec'd < liab>)
Basis of land to Hamilton = \$36,000 (\$36,000 basis to James)

Example 5: Assume the same facts as 4, except that Hamilton stock was worth \$30,000 and the land was subject to a \$40,000 mortgage, to be assumed by Hamilton Corporation.

Realized Gain = (\$30,000 + \$40,000) - \$36,000 = \$34,000
Recognized Gain = \$4,000 (liabilities assumed exceeding basis are taxable as gain)
Basis of stock to James = \$0 (\$36,000 + \$4,000 - \$40,000 boot rec'd < liab>)
Basis of land to Hamilton = \$40,000 (\$36,000 basis to James + \$4,000 gain recognized by James)