**THE TRANSFEREE CORPORATION’S ASSUMPTION OF DEBT  
IN A GOOD 351 EXCHANGE**

**Consider the facts of Problem 14 (bottom of page) with the following alternative modifications:**

1. A incurred the debt 1 week prior to transferring land to X corporation; he used the loan proceeds to take his wife on a luxurious round-trip cruise from NYC to Southampton aboard Queen Mary 2.
2. A incurred the debt during the previous year and used the loan proceeds to pay routine operating expenses during the pandemic.

**Answer the following questions under each alternative (support your answer with specific reference to relevant provisions of the Code and Treasury Regulations):**

1. What is A’s (i)amount realized, (ii)realized gain & (iii)recognized gain in this exchange? (6 points)
2. What effect, if any would X Corporation’s assumption of the debt have on the application of 351 to A’s transfer? Explain your answer. (8 points)
3. What basis would A have in his X stock? (2 points)
4. What basis would X Corporation have in the land? (2 points)
5. Logically justify your answers to questions 3 and 4. (4 points)

**(Problem 14) For reference:**

**X corporation has 1,000 shares of stock outstanding, owned as shown below:**

S/H Shares

A 100

B 100

C 200

D 600

**C&D are married. For each of the following independent situations indicate whether the redemption would qualify for sale or exchange treatment under Section 302.**

1. X redeems all of the stock owned by C in exchange for $50,000 in cash and a $100,000 note payable in annual installments, with adequate stated interest, over the next five years.
2. X redeems all of A’s stock. A will continue to serve as the company’s vice president.
3. 3 years ago, X redeemed all stock owned by B’s father E. At that time. E filed the appropriate agreement with his tax return to waive the family attribution rules. This year, B died, leaving all his stock to E.