CORPORATE TAXATION II - LL.M.
LAW 7613
Spring 2017

SYLLABUS

Mon., Thurs., 3:00 - 4:15 P.M. Professor Martin J. McMahon, Jr.
Class Room 285C Office: Room 312F
Office hours: Mon., Thurs., 4:15 - 5:15 P.M., Tel: (352) 273-0931
and by appointment e-mail: mcmahon@law.ufl.edu

REQUIRED TEXTS


(2) McMahon, Simmons & McDaniel, STUDY PROBLEMS FOR FEDERAL INCOME TAXATION OF CORPORATIONS, 4TH ED. (Foundation Press 2014).

(3) McMahon, Simmons & McDaniel, 2016 UPDATE TO FEDERAL INCOME TAXATION OF CORPORATIONS, 4TH ED. To be provided by Instructor in PDF


IMPORTANT ADVICE

“Some problems are so complex that you have to be highly intelligent and well informed just to be undecided about them.”


CLASS SCHEDULE

Classes meet on Monday and Thursday afternoons, from 3:00 P.M. to 4:15 P.M., throughout the semester. Class will not meet on Thursday, Jan. 19 or March 30. Those classes will be rescheduled to a time and date to be announced.

COVERAGE

The primary focus of this course is the provisions of Subchapter C of the Internal Revenue Code dealing with affiliated corporations and with corporate mergers and acquisitions, reorganizations, and divisions. This course will cover the relevant Code sections, the Regulations thereunder, and judicial interpretations of the Code and Regulations. To study the
topics covered in the course we will use study problems. Each assignment has a coordinated set of study problems (coordinated to text Chapters & Sections).

CLASS PREPARATION

All reading assignments in the text automatically include careful study of all sections of the Internal Revenue Code and Regulations cited at the beginning of the assigned Chapter sections throughout the text. Always work from the professional edition of the Code and Regulations; do not ever work from edited student versions of the Code and Regulations. You should also prepare in advance in writing your analysis of all study problems, including citations to relevant authority and any necessary calculations, that are coordinated to the assigned reading. We will cover as many of the problems as we can in class, but there is no guarantee that we will have the time to examine the answer to every question in detail. The level of preparation of answers to the problems determines the extent to which we have time to examine them in class. You are expected to be prepared every day and actively to participate in class discussion. Adequate preparation and class discussion requires that you be prepared specifically to discuss the application of the law to the particular facts of the study problems. It is my practice randomly to call on students as well as to accept volunteer answers. It is important that you be prepared to discuss in detail your proposed solutions to the discussion problems. Without that participation, I cannot adequately judge how well the members of the class are mastering the material and thus cannot judge how quickly or slowly to proceed and what issues need to be examined more thoroughly.

I recommend that everyone join a study group within which you can compare your tentative answers to the problems and refine them. If you are still struggling to understand the material after the relevant class, come see me in my office.

QUESTIONS AND OFFICE HOURS

On most days I will stay after class if I can to answer questions. You may ask questions about any material that we have covered to date. I have regular office hours, and in addition am available almost anytime on a drop-in basis or by appointment. If you want to schedule an appointment, please e-mail me. Do not e-mail me substantive questions to be answered by e-mail. If you do, I will respond that you should come see me. I find it far, far more productive to discuss questions face-to-face.

EVALUATION

Grades will be assigned primarily on the basis of a final examination, which will be graded anonymously. The law school policy on delay in taking exams can be found at: http://www.law.ufl.edu/students/policies.shtml#12. Grades will follow the University of Florida Grading System. See http://www.registrar.ufl.edu/catalog/policies/regulationgrades.html. The grade achieved on the written work can be raised one grade levels (e.g. from B to B+) as a result of continuous, active, voluntary, high-quality participation in class discussion demonstrating familiarity with the assigned materials (or for unusually extraordinary performance two grade levels). The examination will be a take home examination distributed through the Graduate Tax Office at time to be announced and which will be due approximately 48 hours after distribution
(or longer if it is distributed on a Thursday or Friday). Answers will not be permitted to exceed approximately 18-20 pages (using a font no smaller than 12 point) of standard 8 ½ x 11 inch paper, double spaced with normal margins. A copy of a prior final examination is attached to give you an idea of the nature of the format and level of complexity of the questions that will be asked, as well as some idea of the level of comprehensiveness. The exact focus of the examination questions changes from year-to-year. Please note that I do not provide sample answers to the sample exam and I do not review or discuss with students their proposed answers to the sample examination. It is a “sample” examination, not a “practice” examination.

ATTENDANCE

Regular and punctual attendance at classes is required. I do take attendance by recording it on the seating chart. Any student with more than five unexcused absences will be excluded from the examination. Please e-mail me to request an excused absence or to explain an absence. Recognized religious holidays are automatically excused absences. All I ask is that you e-mail me in advance a list of the holidays on which you will be absent for religious observances. Please arrive at class on time and remain seated for the entire class. If you expect to arrive late, or need to leave early, or expect to have to leave during the class and return, please advise me ahead of time by e-mail.

ELECTRONIC DEVICES

You may use notebook computers to access your own notes on your computer hard drive and to take note during class. No other use of a notebook computer is permitted. You may not access any programs or the internet for any purpose other than to read your notes or take notes concerning this class. That said, I strongly recommend against using computers in class. The point of the class session is to critically discuss in real time the ideas in the material, evaluate the points made by other people in the class, and solve the problems, not to record a transcript of what I or others might say. Turn off all cellular telephones during class. If you have a special reason that someone might need to contact you during class hours (e.g., pregnant spouse, ill relative), you may keep your phone on as long as the ringer is off and it is set to vibrate. Please warn me in advance that you might be receiving a call and need to leave.

STATEMENT RELATED TO ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

Students requesting classroom accommodation must first register with the Office of Disability Resources. The UF Office of Disability Resources will provide documentation to the student who must then provide this documentation to the Law School Office of Student Affairs when requesting accommodation.

COURSE OBJECTIVES

1. Learn to carefully read the Code and Regulations. Precision counts.
   a. Pay attention to each and every word and punctuation mark.
If you don’t understand a Code section the first time, reread it carefully, as many times as necessary, until its meaning become clear. [If you still don’t understand it after preparing and attending class, ask your instructor for help.]

b. Recognize that most sections of the Code are either (1) definitions or (2) “if ... then ...” rules. The Code never “permits” or “prohibits” a taxpayer from engaging in any particular transaction (apart from defining specified tax crimes). The Code merely prescribes the tax results that follow from the transaction, whether or not it is legal (or civilly actionable) under state, or non-tax federal, law.

c. Understand that some sections of the Code are so complicated that you may need to know what they purport to do before you read them. The best primary source of this information is legislative history, i.e., Congressional Committee Reports and Staff of the Joint Committee General Explanations of Tax Legislation [Bluebooks]. They are invaluable guides in interpreting the statutory language. [Your casebook and other course materials provides excerpts from the various legislative history materials for many Code sections.

d. Learn to apply the rules precisely as expressed in the Code and Regulations, not paraphrased generalizations or short-cuts.

   • Although short-cuts and rules of thumb often produce correct answers in a majority of their applications, they also often produce incorrect answers, particularly in counter-intuitive fact patterns. For example, a rule of thumb that provides a shortcut when applying a statutory formula to a transaction involving appreciated property might not work if the property is depreciated in value.

e. Tax law is not horseshoes. Code sections are not applied on a “close enough” principle.

2. Learn the vocabulary, i.e., “tax jargon,” and use it precisely and accurately.

   a. Rely on the terminology and words of the Code and Regulations. Do not make up your own terms of art. Even though they may help you remember a concept or a rule, your use of them will tend to confuse others or misconvey your analysis.

   b. Use the correct word in the correct context, for example, income items that are not included in gross income are “excluded,” not “deducted,” and payments that are subtracted in computing taxable income are “deducted,” not “excluded,” “realized” gain or loss is different than “recognized” gain or loss.

   c. Do not use mutually inconsistent terms simultaneously, for example, “deductible as a capital expense.”

3. Learn to apply the law to the particular facts.

   a. Understand the facts of any particular problem. Figure out what happened – e.g., who paid what to whom and why – before trying to apply the tax law.

      (1) Pay attention to and consider the relevance of each and every fact. Learn to sort the relevant from irrelevant facts.

      (2) Learn how to graphically depict transactions to more easily understand the nature and economics of the transaction.
b. Understand that in multi-party transactions different sections of the Code and Regulations may apply to different parties. Do not confuse the parties or the respective rules that apply to them.

c. Remember that the treatment of one party to a transaction is not always symmetrical to that of another. For example, a payee does not necessarily have exempt income merely because the payor is denied a deduction, and the buyer’s basis for property is not necessarily the exact same amount as the seller’s amount realized.

4. Learn to explain the precise reason, applying the Code, Regulations, and relevant case law and Revenue Rulings for each and every answer to each and every issue presented by any fact pattern. Remember that “public policy” considerations that are often applied in other areas of the law are less significant in resolving tax issues. For example, deductions are not generally disallowed simply because they are incurred to further an illegal activity.

5. Learn how to distinguish situations that have a single clear answer from those in which the answer is ambiguous.

   a. Answer questions that have clear answers directly.

   b. If a question does not have a single clearly correct answer, articulate all of the arguments for and against each possible resolution and weight them in order of the likelihood of application. In such a case attempt to ascertain the answer that is more likely than not the correct answer and be prepared to support your conclusion.

   c. Don’t make frivolous arguments or make it sound like there are arguments both ways when there are not.

6. Understand that the IRS is not Darth Vader – it does not automatically take an “anti-taxpayer” position in every factual situation. The IRS does not seek to include in gross income items that clearly are excluded by the Code, Regulations, or case law, and it does not seek to disallow deductions that clearly are allowed by the Code and Regulations. Nor does the IRS take positions contrary to the Regulations, Revenue Rulings, or Supreme Court cases. It does, of course, argue the government’s side in cases where the law is unclear.

7. Learn to recognize that there may be situations in which you do not have sufficient facts to give a definitive answer, but learn not to be too hasty in concluding that you need additional facts. In such cases, ask for additional facts or provide an answer for each of the possible alternative scenarios.

8. Understand that all of the facts in their totality must be considered simultaneously to determine the correct answer or best arguments. Consider all of the relevant facts before reaching a conclusion.

9. Understand that descriptions of the facts, whether in problems or as explained by clients may use a word in its colloquial sense when the word has a different (often narrower) meaning as a legal term of art. Remember that the same word can have different meanings in different doctrinal areas of law, and that different words used in different doctrinal areas of law can be synonyms for analogous legal conclusions.
Learn how to integrate rules from different Code sections and Regulations sections to determine:

a. Their interaction,

b. Which section controls if they conflict – remember particularly that capitalization trumps deductibility, i.e., an expense described in a deduction section must nevertheless be capitalized in many instances,

c. Whether the principles developed under one Code (or Regulations) section can be applied by analogy to interpret another section, even though the sections neither interact nor conflict.

Above all else: Develop the confidence to read and understand a section of the Code and Regulations that you have never seen before and to apply it properly to a fact pattern that you have never before encountered.

ASSIGNMENTS

The following assignments reflect the order of coverage. Some assignments will require more than one class session, but it is important to read the entire assignment to prepare for the first class in which it will be discussed and to carefully reread the assignment for each succeeding class in which it is discussed. Unless instructed otherwise, go on to a new assignment for the next class.

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<td>Liquidation of Subsidiary</td>
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<td>2 Affiliated Corporations &amp;</td>
<td>Ch. 9, §1 (omitting problem 1)</td>
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<td>Introduction to Consolidated</td>
<td>Ch. 9, §2, pp. 438-444 [Problems 1 &amp; 2]</td>
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<td>Returns</td>
<td>(omitting regulations cited on p. 438)</td>
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<td>3 Consolidated Returns</td>
<td>Ch. 9, §2 (reading Regs cited on p. 438 for</td>
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<td>sense and to solve problems; don’t “study” to</td>
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<td>memorize)</td>
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<td>1st class</td>
<td>Focus on pp. 444-450 and Problems 3-5</td>
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<td>6 Introduction to Tax Free</td>
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<td>7 Continuity of Interest (Part 1)</td>
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<td>Continuity of Interest (Part 2)</td>
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<td>Continuity of Business Enterprise</td>
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<td>Judicial Limitations</td>
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<td>Stock-for-Stock Acquisitions</td>
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<td>Stock-for-Assets Acquisitions</td>
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<td>Triangular Acquisitions</td>
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<td>a.</td>
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<td></td>
<td>b.</td>
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<td>Acquisitive (D) Reorganizations</td>
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<td>16</td>
<td>Recapitalizations</td>
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<td>Changes of Identity or Form</td>
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<td>17</td>
<td>Corporate Divisions (Pt. 1)</td>
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<td>Corporate Divisions (Pt. 2)</td>
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<td>19</td>
<td>Corporate Divisions (Pt. 3)</td>
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<td>20</td>
<td>Corporate Divisions (Pt. 4)</td>
</tr>
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<td>21</td>
<td>Carryover of Attributes</td>
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UNIVERSITY OF FLORIDA
COLLEGE OF LAW

LAW 7613 -- CORPORATE TAXATION II(LL.M.)

FINAL EXAMINATION
April 20, 2007
Professor McMahon

TAKE-HOME EXAM
DUE: 1:00 P.M., Monday, April 23, 2007.
Return to: Graduate Tax Office, Room 320.

INSTRUCTIONS

1. This is a take home examination. You must type your answers. Your answers should not exceed 20 pages (using a font no smaller than 12 point) of standard 8 ½ x 11 inch paper, double spaced with one inch margins, if you need that much. You may single space any computations.

2. Number your pages and put your exam number on each page of your answer; do not put your name anywhere on the answer. Staple your answer together.

3. You must return the examination answer to the Graduate Tax Office, Room 320. If you do not personally hand your examination to an administrative assistant and have your name recorded as returning the examination answer, there is no evidence that you returned your examination. If your examination answer cannot be found, failure to check in the return of your examination raises the presumption that it was not turned in.

4. The examination consists of five questions of approximately equal weight. However, the length of the answers might not be equal and the questions are not necessarily equally complex.

5. Because this is a take home examination, little credit will be given for merely reciting rules of law or spotting issues. Your answer must be specifically directed to the facts and the question that you have been asked. Credit will be subtracted for irrelevancies. Do not repeat the facts without integrating them into analysis or restate rules of law without integrating them into analysis. If you do so, it is very likely that you will not be able to answer the questions within the page limitation. Where numerical answers are called for, it is imperative that you explain your statutory analysis, as well as giving the numerical answer. Citations to correct authority are part of the required answer.

6. (a) Any person who is an individual is designated by a name or by single letter, e.g., A, B, C, D, E, etc. Any person that is a corporation, partnership, or other entity is specifically identified as such the first time the name is used, but not always thereafter.
(b) Assume that all individuals use the cash method and calendar year and all corporations use the accrual method and calendar year.
(c) All taxpayers are unrelated unless the facts indicate otherwise.
(d) No elections have been made unless expressly stated in the facts.
All corporations are U.S. corporations and all individuals are U.S. citizens, unless the facts indicate otherwise.

Unless the facts specifically state the amount of earnings and profits of a corporation, assume that the corporation has significant earnings and profits.

If it is necessary to compute corporate income tax under §11, assume a 35% flat rate. The amount of corporate tax due is not required as part of the answer unless the amount of income tax owed by the corporation affects some other aspect of the answer. If it is necessary to compute the amount of an individual’s income tax liability to answer a question, assume that for ordinary income the individual is in the highest marginal rate bracket, but take into account any preferential rates that might apply. The amount of individual tax due is not required as part of the answer unless the amount of income tax owed by the individual affects some other aspect of the answer.

If necessary, assume that the applicable tax exempt federal rate is 5%

Assume that the statutory law and regulations in effect for all years correspond to current law.

If you find it necessary to assume an evidentiary fact, make only necessary assumptions that are as reasonably consistent with the stated facts as possible. Clearly state your assumptions, and the reasons for making them.

Do not “assume” any ultimate fact findings or the resolution of any legal issues, without first exploring all of the relevant evidentiary facts and legal arguments to reach a reasoned conclusion.

In writing your answers, observe the following rules:

Answer questions in complete grammatical sentences.

Do not use any nonstandard abbreviations.

Use a section sign — § — for citations to the Code and Regulations unless the Code section reference begins a sentence.

Remember that the subsections of the Code and Regulations have parentheses around the letters and numbers. If you omit the parentheses, your citation is incorrect.

If the specific question asks you to describe the tax consequences only for a particular party (or parties) or focuses on one or more, but not all of the issues raised by the facts, limit your answer as directed.

You may consult only the Code and the Regulations, your case book, any materials distributed by the instructor, your class notes and any other notes that you may have prepared before receiving the examination. All of any outline jointly prepared by a study group in which you have actively and materially participated is treated as materials that you have prepared even though you may not personally have authored particular portions of the outline. No other materials are permitted to be used in answering this examination. You may not use any electronic data bases, materials from the law library, commercial study aids, outlines prepared by another student or a study group in which you did not actively and materially participate.

This examination answer is to be solely your own work. There is to be no consultation with or receipt of assistance in any form from any other person.

GOOD LUCK
1. Cayo Heuso Holdings, Inc. owned all of the outstanding common stock of Ecoli Cruise Lines, Inc. Ecoli also has outstanding a class of nonvoting nonconvertible preferred stock owned by the Apocalyptic Life & Casualty Insurance Company. The par value of the preferred stock is $1,000 per share and it has a liquidation value of $1,050 per share. There are 80,000 shares of preferred stock outstanding – the total par value of the outstanding preferred stock is $80,000,000. The fair market value of the preferred stock approximates its par value. Cayo Heuso Holdings’s basis in the common stock of Ecoli is $50,000,000. Cayo Heuso and Ecoli do not file consolidated returns. The assets recorded on Ecoli’s balance sheet consist of the following:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Basis</th>
<th>Fair Market Value</th>
</tr>
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<tbody>
<tr>
<td>Cruise Ships</td>
<td>$ 80,000,000</td>
<td>$ 270,000,000</td>
</tr>
<tr>
<td>Terminal Facilities</td>
<td>$ 50,000,000</td>
<td>$ 90,000,000</td>
</tr>
<tr>
<td>Trademarks</td>
<td>$ 30,000,000</td>
<td>$ 40,000,000</td>
</tr>
<tr>
<td></td>
<td>$160,000,000</td>
<td>$400,000,000</td>
</tr>
</tbody>
</table>

Ecoli owes $240,000,000 to the Titanic National Bank.

Cayo Heuso Holdings has received the following offers to acquire Ecoli.

(a) Poseidon Cruise Ships Corporation has offered to purchase the common stock, but not the preferred stock, for: (1) $180,000,000 cash if Cayo Heuso agrees to make a § 338(h)(10) election and pay all resulting taxes; or (2) for $90,000,000 cash without a § 338(h)(10) election.

(b) Neptune Ventures, Inc., which is publicly traded, has offered to acquire Ecoli in a merger of Ecoli into Neptune Ventures’ wholly owned subsidiary, Atlantis Corp., by exchanging: (a) 8,000,000 shares of Neptune Ventures nonvoting common stock, worth $36,000,000, and $54,000,000 in Neptune Ventures bonds, for the Ecoli common stock owned by Cayo Heuso; and (b) 40,000 shares of Neptune Ventures $1,000 par value nonvoting preferred stock (aggregate par value $40 million) in exchange for the Ecoli preferred stock owned by the Apocalyptic Life & Casualty Insurance Company.

Taking into account only the value of the consideration and the tax consequences, which offer is most attractive to Cayo Heuso after-taxes? Why?
2. BigBird Corporation, which is engaged in the airline business, is the parent of an affiliated group filing consolidated returns. In 2004, BigBird formed a new wholly owned subsidiary, Icarus Corporation, by contributing $6,000,000 of cash and 200,000 shares of BigBird voting common stock worth $32,000,000, for the purpose of acquiring Condor Airlines Corporation. Immediately thereafter, Icarus merged into Condor Airlines. Pursuant to the merger, the shareholders of Condor Airlines exchanged all of their Condor Airlines stock for the 200,000 shares of BigBird voting common stock and the $6,000,000 of cash held by Icarus. In the merger, BigBird’s 100 shares of Icarus voting common stock were surrendered in exchange for 100 shares of newly issued Condor Airlines voting common stock. At the time of the merger, Condor Airlines’s only assets were airplanes with an aggregate basis of $5,000,000 and a fair market value of $60,000,000, which were subject to mortgage debt liens on a debt owned to Midas National Bank of $40,000,000. In 2005, Condor Airlines had taxable income of $13,000,000. In 2006, Condor Airlines incurred a net operating loss of $12,000,000. Condor Airlines distributed $10,000,000 in cash to BigBird in 2006. On January 1, 2007, BigBird sold its Condor Airlines stock to PanAmerican World Airways, Inc. for $5 million in cash and $40 million of PanAmerican voting preferred stock.

   a. How much gain or loss must BigBird recognize on its disposition of all of the Condor stock?
   b. What is BigBird’s basis in the PanAmerican voting preferred stock it received.
   Carefully explain the legal rule underlying each step of your calculations.

3. Brett owned 300 shares of stock of Target Corp. common stock and 500 shares of Target Corp. preferred stock. The details of Brett’s acquisition of the Target stock is as follows

<table>
<thead>
<tr>
<th>Stock</th>
<th>Acquisition Date</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 common</td>
<td>June 1, 2000</td>
<td>$5,000</td>
</tr>
<tr>
<td>200 common</td>
<td>May 1, 2006</td>
<td>$28,000</td>
</tr>
<tr>
<td>500 preferred</td>
<td>April 15, 2005</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Target was merged into, Slingshot Corp. a wholly owned subsidiary of Goliath Corp., on Nov. 1, 2006. Pursuant to the terms of the merger, Brett received 900 shares of Goliath voting common stock, worth $30 per share (total value $27,000) and $12,000 cash in exchange for the 300 shares of Target common stock. Brett received 155 shares of $100 par value nonvoting preferred stock of Goliath, worth a total of $15,500 and 150 shares of Target common stock, worth $30 per share (total value $4,500) in exchange for the 500 shares of Target common stock. Goliath is publicly traded, and the shares Brett received constituted less than .0001 percent of the outstanding shares of Goliath.
4. Leviathan Corp. desired to acquire Tango Corp., which was owned equally by B and C. The stock of Tango was worth $20,000,000. To this end, all of the following prearranged transactions occurred. Leviathan formed Newco, Inc. a special purpose corporation, which issued only one qualifying share to a strawman. Newco then formed two wholly-owned subsidiaries, Facilitator, Corp. and Helpful Corp. Neither corporation was capitalized with any property except a minimal amount necessary to establish existence under state law. Facilitator then merged into Leviathan under state law, with the Leviathan shareholders receiving one share of Newco stock for each share of Leviathan (a total of 10,000,000 shares of voting common stock), and the strawman’s qualifying share of stock was cancelled. Helpful Corp. merged into Tango Corp. under state law, with B and C each receiving, $3,000,000 of cash and 100,000 shares of Newco, worth $70 per share (total share value of $7,000,000 each). B’s basis in Tango was $4,000,000; C’s basis in Tango was $2,000,000. Immediately after the transactions, Newco changed its name to Leviathan-Phoenix Corp.

Are any or all of these transactions a tax-free reorganization? If so, what type? How are these transactions characterized for federal tax purposes if they are not tax-free reorganizations? Carefully explain the analysis by which you characterize the transaction.

5. Trash Media Corp., which is publicly traded and engaged in the newspaper publishing business, owned all of the stock of Garbage Broadcasting Corporation (GBC). Trash Media’s basis in the GBC stock was $50,000,000. The Trash Media affiliated group files a consolidated return. GBC has operated a national over-the-airwaves television network for over 10 years. GBC also has operated a number of cable TV channels for a similar period. The fair market value of GBC’s over-the-airwaves television network was $100,000,000; GBC’s basis in the assets of GBC’s over-the-airwaves television network was $20,000,000. The fair market value of GBC’s cable TV channel businesses was $150,000,000; GBC’s basis in the assets of cable TV channel businesses was $30,000,000. This year, GBC issued $90,000,000 of 20-year bonds, which are publicly traded, raising $90,000,000 cash. GBC formed Cable Television Slop Corp. (CTS), to which it transferred the cable TV channel businesses and the $90,000,000 of cash. The GBC bonds remained obligations of GBC and CTS did not assume any obligations with respect thereto. GBC then distributed the stock of CTS to Trash Media.
About a year later, to resolve a disagreement between Trash Media’s management and Rupert, Trash Media’s largest single shareholder, about the future direction of the corporation’s business ventures, Trash Media distributed all of the stock of GBC to its largest single shareholder, Rupert, in exchange for 10 percent of the stock of Trash Media, which Rupert had owned for approximately 5-years.

What are the tax consequences of these transactions? Carefully explain the analysis by which you characterized the transaction.