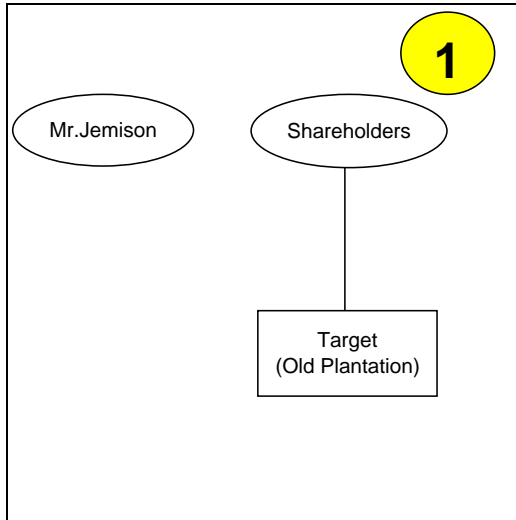
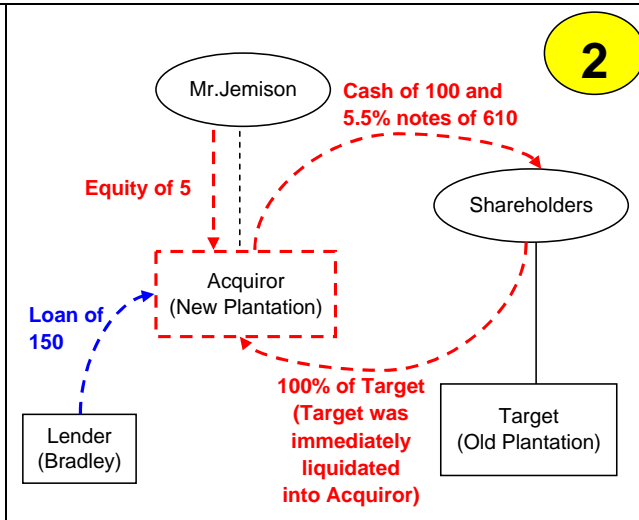


**Guarantor of Debt Treated as Borrower**

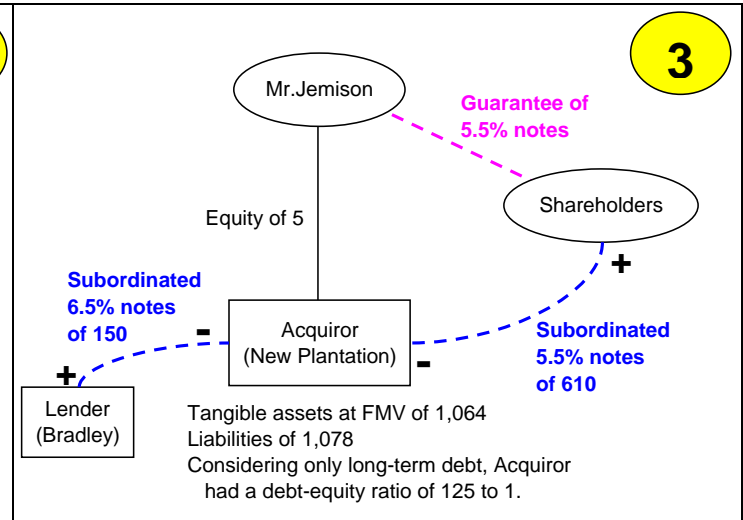
**Initial Structure**



**Acquisition**



**Ending Point**



For simplicity purposes, the charts do not represent the offsetting notes of 183 between New Plantation and certain shareholders related to the sale of the office chair business. The Tax Court held that those notes should be disregarded and this was not an issue on appeal. Also, Mrs. Jemison owned the stock of New Plantation but the court held that she owned the stock as a nominee for Mr. Jemison.

Mr. Jemison owned 100% of Jemison Investment Co. which also guaranteed the 5.5% notes and received a guarantee fee. However, the Tax Court found, and the Fifth Circuit affirmed, that the actions of Jemison Investment Co. were of no consequence.

Bradley's loan to New Plantation was made on favorable terms (without a guarantee and subordinated) because Bradley's son was hired by Mr. Jemison.

The upshot of the equity characterization is that New Plantation gets no interest expense deduction. In addition, interest and principal payments made by New Plantation to the Old Plantation shareholders are treated as equity distributions by New Plantation to Mr. Jemison and correspondingly as interest and principal payments by Mr. Jemison to the shareholders.

[HUNDREDS of additional charts at www.andrewmitchel.com](http://www.andrewmitchel.com)

**Court's Recharacterization**

