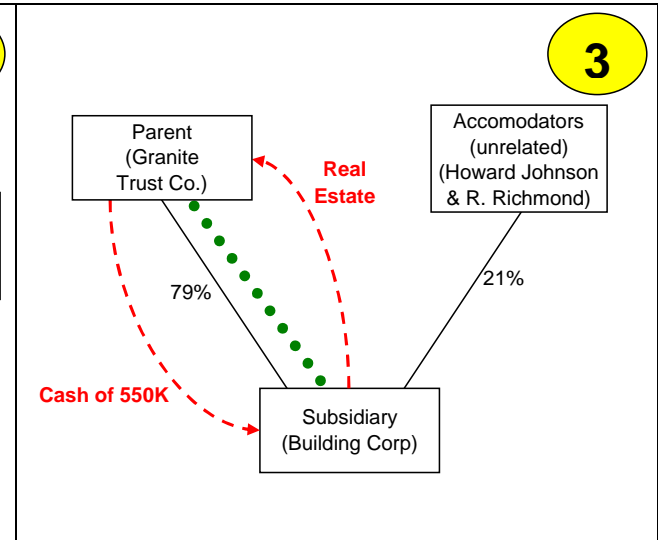
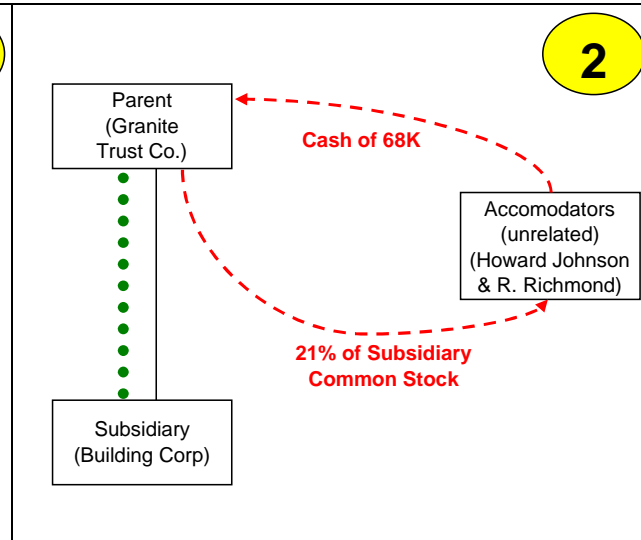
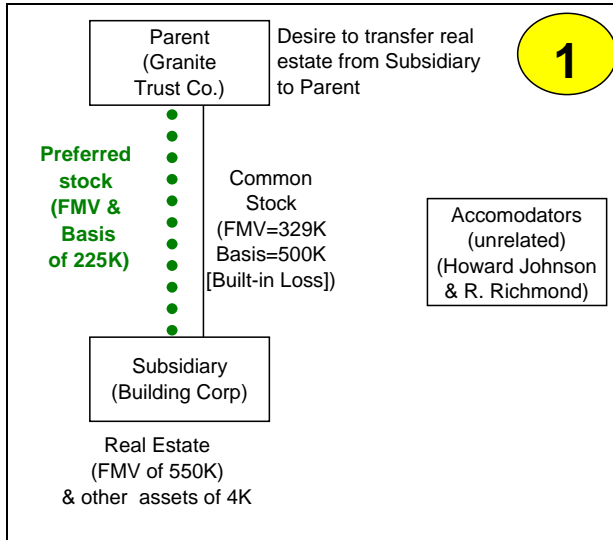


Initial Structure (12/1/43)

Sale of Shares (12/6/43)

Sale of Real Estate (12/15/43)



Parent wanted to purchase Subsidiary's real estate and to liquidate Subsidiary. However, under section 112(b)(6) [predecessor to section 332], Parent's inherent loss of 171K in the Subsidiary stock would not have been recognized.

The court analyzed the statute, regulations, legislative history, and prior court cases [Day Zimmermann and Avco Manufacturing] to determine that "taxpayers can, by taking appropriate steps, render [section 332] applicable or inapplicable as they choose."

The above charts do not reflect that Parent made a small gift of Subsidiary stock to a charity. The court stated that "the taxpayer is on even firmer ground" here because a "gift certainly may have a tax motive" and that "[c]haritable contributions of low-cost securities are an every-day type of transfer motivated by tax purposes."

Liquidation of Subsidiary (12/17/43)

Ending Point

