The outstanding bonds of the X corporation were converted into common stock of Y corporation in accordance with the terms and provisions contained in the bonds. X and Y were separate entities. Under the provisions of section 1002 any gain or loss realized upon the sale or exchange of property is recognized unless the transaction comes under one of the exceptions contained in subtitle A of the Code.

Since the bonds and the stock in this case were issued by two separate and distinct corporations and none of the exceptions contained in subtitle A of the Code apply, gain or loss is recognized on the exchange of the bonds of X for common stock of Y to the extent of the difference between the fair market value of the common stock of Y received and the cost or other basis of the bonds of X exchanged therefor.

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