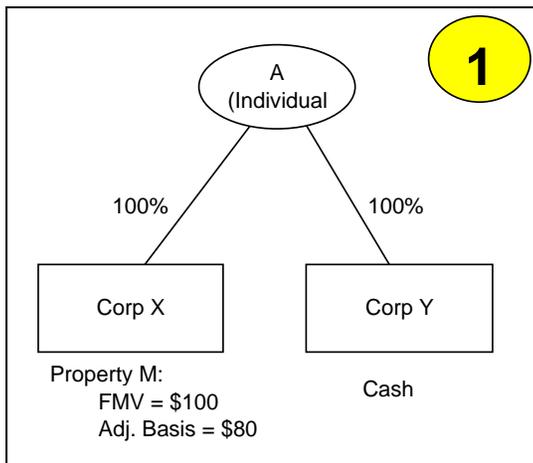
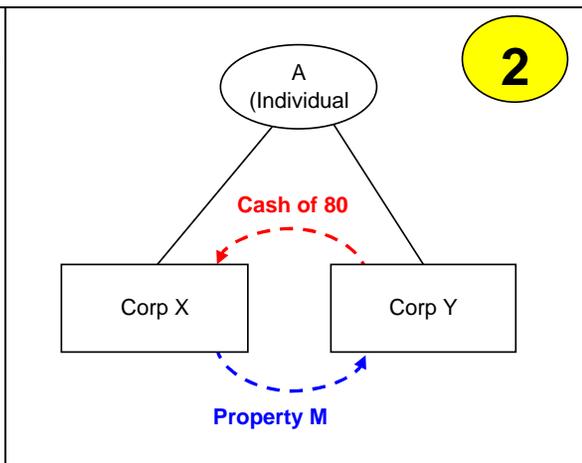


**Bargain Sale Between  
Brother-Sister Corporations**

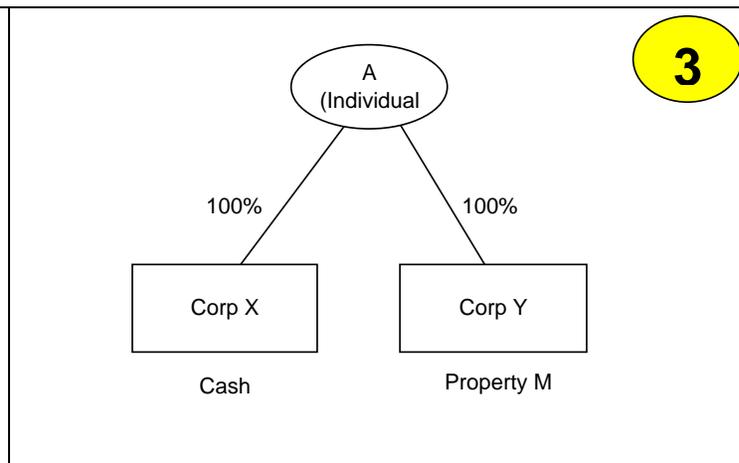
**Initial Structure**



**Bargain Sale**



**Ending Point**



A, an individual, owns all of the stock of Corp X and all of the stock of Corp Y. A caused X to sell certain of its property to Y for less than an arm's length price. The sale had as one of its principal purposes the avoidance of Federal income tax. Section 482 provides authority to distribute, apportion, or allocate gross income, deductions, and credits among related entities if it is necessary in order to clearly reflect the income of such entities or to prevent the evasion of taxes. Section 482 applies to bargain sale transactions between brother-sister corporations. Where an allocation is made under section 482 as a result of a bargain sale between brother-sister corporations, the amount of the allocation will be treated as a distribution to the controlling shareholder(s) with respect to the stock of the entity whose income is increased and as a capital contribution by the controlling shareholder(s) to the other entity involved in the transaction giving rise to the section 482 allocation.

Accordingly, the income of X will be increased to reflect the arm's length price of the property sold to Y. The basis of the property in the hands of Y will also be increased to reflect the arm's length price. Furthermore, the amount of such increase will be treated as a distribution to A, the controlling shareholder, with respect to his stock of X and as a capital contribution by A to Y. Because the transaction giving rise to the section 482 allocation had as one of its principal purposes the avoidance of Federal income tax, it is not subject to the provisions of Revenue Procedure 65-17. The amounts included above were not in the Revenue Ruling but were added for illustrative purposes.

**Deemed Transfers**

