Revenue Ruling 72-265

No Gain / Loss on Conversion of Convertible Debenture

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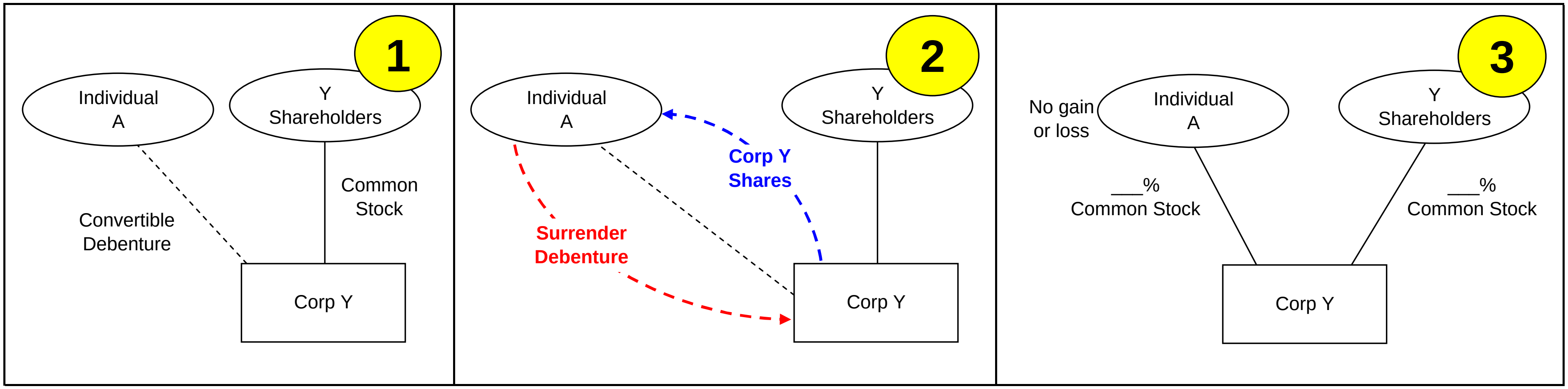
Initial Structure | **Debt-for-Stock Exchange** | **Ending Point**



A purchased on the open market in 1967 for 500x dollars a debenture of Y corporation with a principal amount of 500x dollars. The terms of the offering of this issue of debentures in 1965 had included a provision that, at any time before January 1, 1970, the holder of any debenture could surrender all or part (in multiples of 100x dollars of principal amount) of his holdings of this issue of debentures and would receive 20 shares of Y common stock for each 100x dollars of principal amount of the debentures surrendered. In 1969 A exercised the right to surrender the debenture and received therefor 100 shares of Y common stock with a total fair market value of 1000x dollars.

Section 1001(a) provides that the gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the adjusted basis for determining gain, and the loss shall be the excess of the adjusted basis for determining loss over the amount realized.

Although no rationale was provided, the ruling held that no gain or loss is realized upon the conversion of a corporate debenture into stock of the obligor corporation. This rule applies except where provisions of the Code specifically require that gain be recognized. See Revenue Ruling 72-264. No gain is therefore realized by A upon his exercise of the right to surrender the debenture for common stock. Similarly, the unadjusted basis of the 100 shares of Y common stock is 500x dollars, the cost of the debenture. The conversion of a debenture into stock of a different corporation, however, is a taxable event. See Revenue Ruling 69-135.