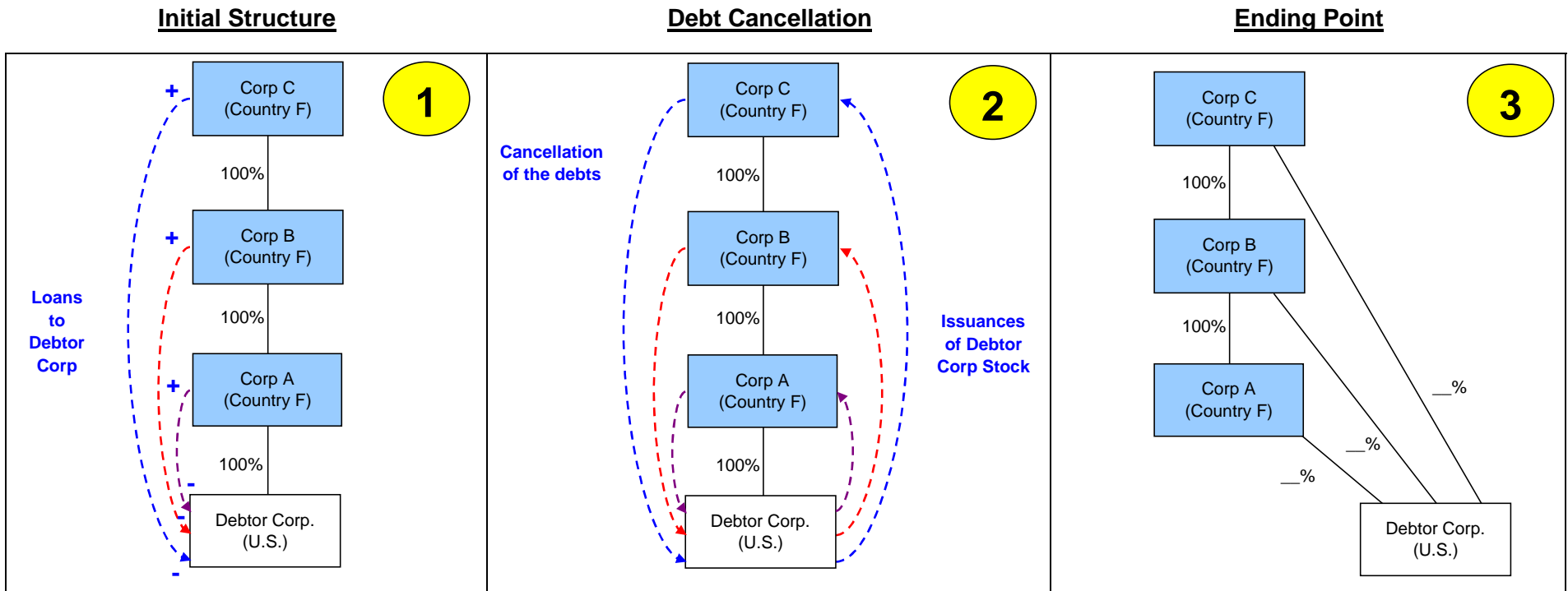


**Discharge of Indebtedness
By Direct & Indirect Shareholders**



The issue in the TAM was whether §108(e)(6) or §108(e)(8) applied where a Debtor corporation contemporaneously issued stock to each of three creditors in cancellation of its separate debts to them. The creditors were the Debtor's parent, grandparent, and great-grand parent. The TAM held that § 108(e)(8), and not §108(e)(6), applied, because the Debtor issued stock in return for cancellation of each of the debts.

Section 108(e)(6) applies to a debtor corporation's acquisition of "its indebtedness from a shareholder as a contribution to capital." In the phraseology of the Internal Revenue Code, the term "contribution to capital" does not encompass an exchange, in other words a transaction in which the corporation issues consideration in return for the contribution. Compare, e.g., §118 with §1032. In form, therefore, the three creditors' cancellation of the Debtor's indebtedness was not a contribution to capital, since the Debtor issued stock to each of the three in return. Since the three creditors' cancellation of their respective debts owed them by the Debtor was not a contribution to the capital of the Debtor, §108(e)(6) cannot apply. Hence, §108(e)(8) instead applies.