

Executive Summary

The tax issues that can surround a 351 transaction (or any transaction) can be numerous and complex. This spreadsheet is designed only to illustrate a basic computation of a 351 transaction, and is not intended to replace the need for professional tax guidance.

The spreadsheet allows for a basic computation of Internal Revenue Code (IRC) Section 351 transactions ([http://www.taxalmanac.org/index.php/Internal Revenue Code:Sec. 351. Transfer to corporation controlled by transferor](http://www.taxalmanac.org/index.php/Internal_Revenue_Code:Sec. 351. Transfer to corporation controlled by transferor)). In a 351 transaction, a person transfers property to a corporation in exchange for stock. Property can consist of money or any tangible or intangible property, such as machines, patents, customer lists, buildings, etc; property can be almost anything. No gain or loss to the corporation will occur for *tax purposes* in receiving the property given; to the transferor, gain or loss is not recognized for tax purposes unless taxable boot* is received in the transaction from the corporation. Boot can be cash or property (other than the corporation’s stock). When boot is given to the transferor, the *recognized* (taxable) gain to the transferor is the lesser of the *realized gain* (the gain that occurred, but will not be taxable), or boot received.

*The idea of boot is that people are selling their property to the corporation to the extent of how much money or property they receive in exchange, whereas the 351 transaction is designed to allow people to contribute to a corporation in exchange for stock, i.e., for future economic benefits that have not occurred yet.

How to use the spreadsheet

The spreadsheet has two buttons; the first button (**Figure 1**) will allow the user to input information about the 351 transaction, the second (**Figure 2**) shows what financial analyst firms think about the stock received in the transaction.

Figure 1

	Totals	Land
Basis	\$ 380,000	\$ 60,000.00
FMV	\$ 350,000	\$ 100,000.00
% FMV		28.6%
Received		
Stock	\$ 300,000	\$ 85,714.29
cash	\$ 100,000	\$ 28,571.43

Figure 2

Research Firm	Action	From
Collins Stewart	Initiated	Buy
Standpoint Research	Downgrade	Buy
FBR Capital	Downgrade	Outperform

When the user clicks on the button shown in figure one, a user form will appear.

Property Transferred

Transfer Data | List of Transfers | Property Received | List of Received Property

Property name/type

Property Name/Type: Building **1**

Basis: 200000 **2**

FMV: 100000 **3**

Save

Total Value Received in exchange

STOCK:

CASH:

OTHER PROPERTY: Input Property Received

DEBT RELIEF:

Save

The first page on the form will allow the user to put in the property transferred:

1. The property name/type transferred
2. The tax basis the transferor had in the property, and
3. The value (FMV stands for fair market value) of the property transferred.

Once the user has input the data, hitting the Save button (circled in red above) will cause the spreadsheet to populate with the data the user has inputted. This process can be repeated as many times as necessary.

An example of data that was entered by the user is shown below.

1 **Transfers to a Corporation as governed by IRC Sec. 351, and other applicable tax laws**

2 Also: Found near the bottom is the button to learn about prospects for the stock you received in the transaction

3

4 THE TRANSFEROR TO TH

	Totals	Land	Machine	Building
Basis	\$ 380,000	\$ 60,000.00	\$120,000.00	\$ 200,000.00
FMV	\$ 350,000	\$ 100,000.00	\$150,000.00	\$ 100,000.00
% FMV Received		28.6%	42.9%	28.6%
Stock	\$ 300,000	\$ 85,714.29	\$128,571.43	\$ 85,714.29
cash	\$ 100,000	\$ 28,571.43	\$ 42,857.14	\$ 28,571.43
other property	\$ 15,000	\$ 4,285.71	\$ 6,428.57	\$ 4,285.71
debt relief		\$ -	\$ -	\$ -
TOTAL	\$ 415,000	\$ 118,571.43	\$177,857.14	\$ 118,571.43
REALIZED GAIN		\$58,571.43	\$57,857.14	(\$81,428.57)
Boot Received		\$32,857.14	\$49,285.71	\$32,857.14
RECOGNIZED GAIN		\$32,857.14	\$49,285.71	\$ -

16

17

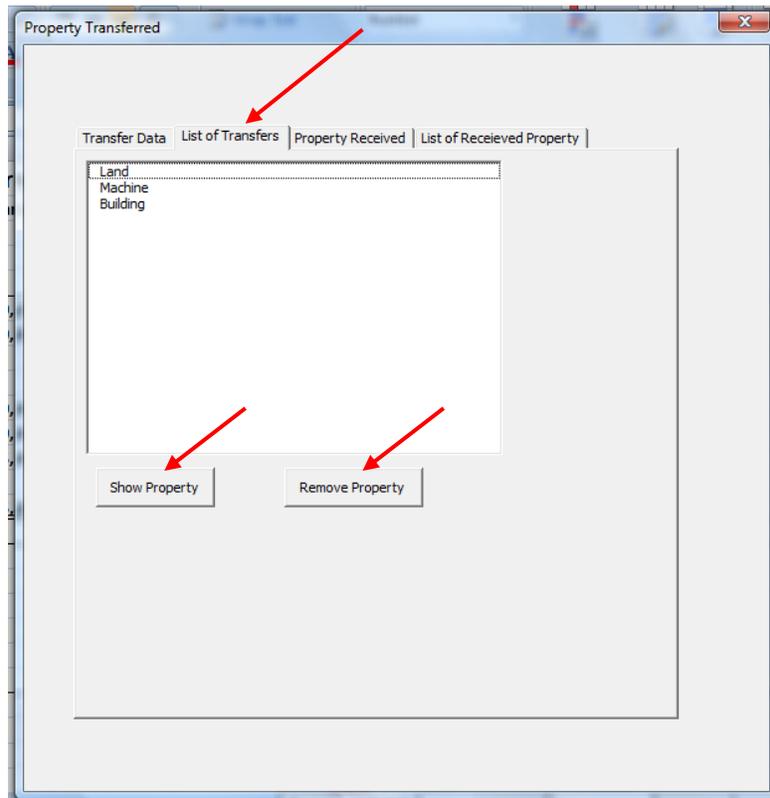
18

19

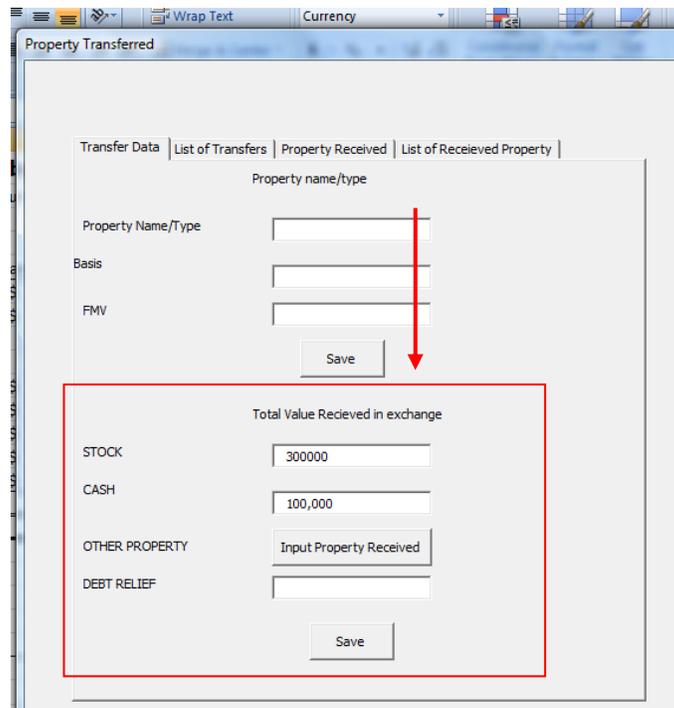
20

21

To alter the transferred property data in some way, click on the 'List of Transfers' page to bring up a list box, and then click to Show Property button. **(Note: to change the *name* of a property, you must remove it from the sheet and then re-enter it again through the user form, or else the program thinks you are entering a new property).** To remove a property from the spreadsheet, select the property from the list box and hit the Remove Property button.



While still on the Transfer Data page (shown below), just below the area to input property transferred is the section to input what was received in exchange by the transferor.



Hitting the Save button below that section will cause the spreadsheet to load the **value** of stock, cash, other property, and debt relief; please note that the stock is input in terms of its fair market value, not the number of shares received. *The section describing how to input other property will be demonstrated shortly hereafter.* Due to tax laws, an item transferred to the corporation is deemed to be exchanged for the percentage of total fair market value relative to the

total items transferred in the exchange. Thus, if only one item was transferred, the amount of stock, property, etc, received in exchange would all be allocated to that one item. Calculating gain or loss is now very simple.

If multiple items are transferred to the corporation, then each **item's gain or loss is calculated as if only its percentage of fair market value that it makes up in the transferred items of the assets received by the corporation in the exchange is what is occurring.** The \$300,000 of stock in the example below will be divided up amongst the land (28.6%), machine (42.9%), and building (28.6%). The total amount received is the same; it is simply divided up based on the percent of fair market value each item makes up in the total amount of value that was transferred to the corporation.

5	transaction	Totals	Land	Machine	Building
6	Basis	\$ 380,000	\$ 60,000.00	\$120,000.00	\$ 200,000.00
7	FMV	\$ 350,000	\$ 100,000.00	\$150,000.00	\$ 100,000.00
8	% FMV		28.6%	42.9%	28.6%
9	Received				
10	Stock	\$ 300,000	\$ 85,714.29	\$128,571.43	\$ 85,714.29
11	cash	\$ 100,000	\$ 28,571.43	\$ 42,857.14	\$ 28,571.43
12	other property	\$ 15,000	\$ 4,285.71	\$ 6,428.57	\$ 4,285.71
13	debt relief	\$ -	\$ -	\$ -	\$ -
14	TOTAL	\$ 415,000	\$ 118,571.43	\$177,857.14	\$ 118,571.43
15					
16	REALIZED GAIN		\$58,571.43	\$57,857.14	(\$81,428.57)
17	Boot Received		\$32,857.14	\$49,285.71	\$32,857.14
18	RECOGNIZED GAIN		\$32,857.14	\$49,285.71	\$ -
19					
20					
21					
22					
23					Transferor's basis in the Assets Received
24					Computation for other property

From here, gain and loss is calculated by subtracting the amount deemed to be received from each item (represented by the underlined **TOTAL** for each item) less the tax basis each item had. Tax laws determine that the transferor recognizes a taxable gain which is the lesser of boot received, or the realized gain (value received less basis). The *recognized gain* is the *taxable gain*, and the tax rates applied to it will depend on the nature of the item being transferred (i.e., capital gain, ordinary income, etc.) and the tax rates applicable to the transferor. [These exact details are beyond the scope of this project.]

5	transaction	Totals	Land	Machine	Building
6	Basis	\$ 380,000	\$ 60,000.00	\$120,000.00	\$ 200,000.00
7	FMV	\$ 350,000	\$ 100,000.00	\$150,000.00	\$ 100,000.00
8	% FMV		28.6%	42.9%	28.6%
9	Received				
10	Stock	\$ 300,000	\$ 85,714.29	\$128,571.43	\$ 85,714.29
11	cash	\$ 100,000	\$ 28,571.43	\$ 42,857.14	\$ 28,571.43
12	other property	\$ 15,000	\$ 4,285.71	\$ 6,428.57	\$ 4,285.71
13	debt relief	\$ -	\$ -	\$ -	\$ -
14	TOTAL	\$ 415,000	\$ 118,571.43	\$177,857.14	\$ 118,571.43
15					
16	REALIZED GAIN		\$58,571.43	\$57,857.14	(\$81,428.57)
17	Boot Received		\$32,857.14	\$49,285.71	\$32,857.14
18	RECOGNIZED GAIN		\$32,857.14	\$49,285.71	\$ -
19					
20					
21					
22					
23					Transferor's basis in the Assets Received
24					Computation for other property

Rather than having a text box to input the value of 'Other Property' received in the exchange, the form has a button to allow the user to input each property received on a separate page. To reach this page, simply click the Input Property Received button found on the Transfer Data page.

Transfer Data | List of Transfers | Property Received | List of Received Property

Property name/type

Property Name/Type

Basis

FMV

Save

Total Value Received in exchange

STOCK

CASH

OTHER PROPERTY

DEBT RELIEF

Save

Transfer Data | List of Transfers | Property Received | List of Received Property

Property Name

FMV (Fair Market Value)

Save

On the Property Received page, the user inputs each property received in exchange for property transferred, just as the user did with Stock, Cash, and Debt Relief on the Transfer Data page. Hitting the Save button on the Property Received page will cause the spreadsheet to populate the designated section (shown below in the section labeled **Computation for other property**).

To alter the transferred property data in some way, click on the 'List of Received Property' page to bring up a list box, and then click to Show Property button. (**Note: to change the *name* of a property, you must remove it from the sheet and then re-enter it again through the user form, or else the program thinks you are entering a new property**). To remove a property from the spreadsheet, select the property from the list box and hit the Remove Property button.

Transfer Data | List of Transfers | Property Received | List of Received Property

Property Name

FMV (Fair Market Value)

Save

Transfer Data | List of Transfers | Property Received | List of Received Property

Cars
Houseboat

Show Property Remove Property

Please note that since the transferor will always receive stock in a 351 transaction, a basis computation will always appear for stock received in the transaction.

22									
23									
24									
25	Computation for Stock				Stock	Transferor's basis in the Assets Received			
26	Old basis In Assets Transferred			\$	380,000	Cars	Houseboat		
27	Less	Cash			-100,000				
28		other property			-45,000				
29		liability relief			0				
30	Plus	Grain Recognized			0				
31	BASIS FOR STOCK/P text				\$	235,000	15,000	30,000	
32									
33									
34									
35									
36									
37	Transferor's old basis					Totals	Land	Machine	Building
					380000	60000	120000	200000	

The final process for the 351 transaction is computing the tax basis in the property the corporation has received. The spreadsheet will do that based on everything that has already been input by the user.

25	Computation for Stock				Stock	Cars	Houseboat		
26	Old basis In Assets Transferred			\$	380,000.00				
27	Less	Cash		\$	(100,000.00)				
28		other property		\$	(45,000.00)				
29		liability relief		\$	-				
30	Plus	Grain Recognized		\$	-				
31	BASIS FOR STOCK/P text				\$	235,000.00	\$ 15,000.00	\$ 30,000.00	
32									
33									
34									
35									
36									
37	Transferor's old basis				\$	380,000.00	\$ 60,000.00	\$120,000.00	\$200,000.00
38	Gain recognized				\$	-	\$ -	\$ -	\$ -
39	362(a) basis				\$	60,000.00	\$120,000.00	\$200,000.00	
40	Total Fair Market Value				\$	356,000.00			
41	Total adjusted basis (as in 362(a)) Basis				\$	-			
42	Excess of aggregate adjusted basis over aggregated FMV				\$	-			
43	Allocation to (subtract from) the Loss Assets								
44	The Corporation's Basis				\$	380,500.00	\$ 60,000.00	\$120,000.00	\$200,000.00
45									
46									
47									
48									
49									
50	So what are the "experts" saying about the stock you just received?								
51	*Note: this may take a few moments, and you must be connected to the internet.								

The final application of the spreadsheet is to see how stock analysts view the stock acquired in the 351 transaction. Simply click the button shown below, put in the ticker symbol, and let the program run. The spreadsheet will populate as shown below. To run this function, the computer must have Internet Explorer installed.

50 So what are the "experts" saying about the stock you just received?

51 Click here
and enter the Ticker Symbol to learn more *Note: this may take a few moments, and you mu

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Research Firm	Action	From	To
Collins Stewart			
Standpoint Research			
FBR Capital			
Standpoint Research			
The Benchmark Comp			
FBR Capital			
Janney Mntgmy Scott			
Soleil			
Citigroup			
UBS			

Ticker Symbol Lookup

IBM Ticker Symbol

See what analysts think of the stock

If the button stays depressed, that just means it's thinking!

	Current Month	Last Month	Two Months Ago	Three Months Ago
Strong Buy	15	15	15	16

50 So what are the "experts" saying about the stock you just received?

51 Click here
and enter the Ticker Symbol to learn more *Note: this may take a few moments, and you must be connected to the internet.

52

53

54

Research Firm	Action	From	To
Collins Stewart	Initiated		Buy
Standpoint Research	Downgrade	Buy	Hold
FBR Capital	Downgrade	Outperform	Mkt Perform
Standpoint Research	Initiated		Buy
The Benchmark Company	Upgrade	Sell	Hold
FBR Capital	Upgrade	Mkt Perform	Outperform
Janney Mntgmy Scott	Initiated		Neutral
Soleil	Initiated		Buy
Citigroup	Initiated		Buy
UBS	Initiated		Buy

	Current Month	Last Month	Two Months Ago	Three Months Ago
Strong Buy	15	15	15	16
Buy	9	9	9	10
Hold	10	10	10	10
Underperform	1	1	1	1
Sell	0	0	0	0

73 Data provided by Thomson/First Call

Discussion of learning and conceptual difficulties encountered

The entire project was a challenging learning process, but I had help from the professor and was able to use the textbook, in-class learning, and the web to find answers for everything I wanted to do. The project became much easier to manage after the user forms assignment due to my better understanding of how to build and manage a user form. The agent shown in class for grabbing data off the web was also essential and is utilized in this project.

Of particular difficulty was getting the list boxes to work with the spreadsheet, but once that was covered, I was well on my way. I also had a hard time getting the *correct* text boxes to only accept numerical inputs. This problem was solved once Dr. Allen showed me how each object (like a text box, or label) **on** the user form can be looped through and analyzed via a 'tag' placed upon it for identification

The learning I did in putting together this project has really helped me solidify what I learned in class this year. The way this project utilizes loops, If-statements, list boxes, web interaction, and the logic needed to create a working spreadsheet (i.e., all parts work together correctly) has made it a great culmination of learning for MBA 614.