
Summary of Contents

<i>Preface</i>	v
<i>Acknowledgments</i>	vii
<i>About the Author</i>	ix
<i>Contents</i>	xiii
Chapter 1 Taxable and Tax-Free Acquisitions	1001
Chapter 2 Basic Concepts in Deductibility and Capitalization	2001
Chapter 3 Accounting for Restructuring Transactions under Sections 351, 338, 381, and 1001	3001
Chapter 4 Treatment of Contingent Liabilities	4001
Chapter 5 Treatment of Transaction Costs Prior to the Final Capitalization Regulations	5001
Chapter 6 Final Capitalization Regulations	6001
Chapter 7 Debt Modifications in Connection with Mergers and Acquisitions	7001
Chapter 8 Original Issue Discount (OID) in Mergers and Acquisitions	8001
Chapter 9 Amortization of Intangibles under Section 197	9001
Chapter 10 Limitation on Loss Carrybacks—Corporate Equity Reduction Transactions	10,001
Chapter 11 Consolidated Return Tax Accounting Issues	11,001
Chapter 12 Tax Accounting Issues in Bankruptcies and Work-outs	12,001
<i>Appendix: Comprehensive Example</i>	13,001
<i>Table of Internal Revenue Code Sections</i>	14,001
<i>Table of Treasury Regulations</i>	15,001
<i>Table of Treasury Rulings</i>	16,001
<i>Table of Cases</i>	17,001
<i>Table of Statutes</i>	18,001
<i>Index</i>	19,001

Contents

<i>Preface</i>	v
<i>Acknowledgments</i>	vii
<i>About the Author</i>	ix

Chapter 1

Taxable and Tax-Free Acquisitions

PART 1—TAXABLE STOCK AND ASSET ACQUISITIONS	1003
¶ 101 INTRODUCTION	1003
¶ 102 TAXABLE ACQUISITIONS	1004
¶ 102.1 Taxable Stock Acquisitions	1004
¶ 102.1.1 Tax Consequences to Target Shareholders	1005
¶ 102.1.1.1 Gain or Loss	1005
¶ 102.1.2 Installment Sale Reporting	1006
¶ 102.1.3 The Receipt of Contingent Consideration by the Seller	1008
¶ 102.1.3.1 Closed Transactions	1008
¶ 102.1.3.2 Open Transactions	1008
¶ 102.1.3.3 Characterization of Contingent Consideration as Debt or Equity	1009
¶ 102.1.3.4 Imputed Interest	1010
¶ 102.1.3.5 Contingent Consideration Examples	1011
¶ 102.1.4 Transaction Costs	1012
¶ 102.2 Tax Consequences to Acquirer	1013
¶ 102.3 Tax Consequences to the Target Corporation	1014
¶ 103 TAXABLE ASSET ACQUISITIONS	1014
¶ 103.1 Tax Consequences to the Target Corporation	1015
¶ 103.1.1 Gain or Loss	1015
¶ 103.1.2 Code § 1060	1016
¶ 103.1.2.1 Applicable Asset Acquisition	1016
¶ 103.1.2.2 Residual Allocation Method	1017
¶ 103.1.2.3 Examples of Residual Allocation Method	1018
¶ 103.1.2.4 Allocation by the Parties	1019
¶ 103.1.2.5 Redeterminations of Consideration Received	1020
¶ 103.1.2.6 Transaction Costs	1021

	¶ 103.1.3	Character of Gain or Loss	1021
	¶ 103.1.3.1	Definition of Capital Asset— Code § 1221	1022
	¶ 103.1.3.2	Code § 1231	1023
	¶ 103.1.3.3	Code § 1239	1024
	¶ 103.1.3.4	Code §§ 1245 and 1250— Depreciation Recapture	1025
	¶ 103.1.3.5	LIFO Inventory Recapture	1025
	¶ 103.1.4	Installment Sale Reporting	1026
	¶ 103.2	Tax Consequences to the Purchaser	1028
¶ 104	CODE § 338		1029
	¶ 104.1	Code § 338(g) Elections	1029
	¶ 104.2	Code § 338(h)(10) Elections	1030
	¶ 104.3	Making a Code § 338(g) and 338(h)(10) Election	1031
	¶ 104.4	Tax Consequences to Old Target	1031
	¶ 104.4.1	Code § 338(g) Election	1031
	¶ 104.4.1.1	Grossed-Up Amount Realized	1031
	¶ 104.4.1.2	Liabilities of Old Target	1032
	¶ 104.4.1.3	Allocation of ADSP Among the Target Assets	1033
	¶ 104.4.1.4	Redetermination of ADSP	1033
	¶ 104.4.1.5	Installment Sale Reporting	1034
	¶ 104.4.2	Code § 338(h)(10) Election	1034
	¶ 104.4.2.1	In General	1034
	¶ 104.4.2.2	Installment Sale Reporting	1034
	¶ 104.5	Tax Consequences to New Target	1035
	¶ 104.5.1	Code § 338(g) Election	1035
	¶ 104.5.1.1	Grossed-Up Basis	1035
	¶ 104.5.1.2	Liabilities of New Target	1036
	¶ 104.5.1.3	Allocation of AGUB Among the Target Assets	1037
	¶ 104.5.1.4	Redetermination of AGUB	1037
	¶ 104.5.2	Code § 338(h)(10) Election	1037
	¶ 104.6	Tax Consequences to Selling Shareholders in a Code § 338(h)(10) Transaction	1038
	¶ 104.7	Proposed Regulations Under Code § 336(e)	1038
PART 2—TAX-FREE REORGANIZATIONS			1039
¶ 105	INTRODUCTION		1039
¶ 106	STATUTORY MERGERS (“A” REORGANIZATIONS)		1039
	¶ 106.1	Statutory Requirements	1039
	¶ 106.2	Judicial Doctrines	1042
	¶ 106.2.1	Business Purpose	1042
	¶ 106.2.2	Continuity of Interest	1043
	¶ 106.2.3	Continuity of Business Enterprise	1044
¶ 107	TRIANGULAR A REORGANIZATIONS		1045
	¶ 107.1	Forward-Triangular Mergers—Statutory Requirements	1045

	¶ 107.2	Reverse-Triangular Reorganizations—Statutory Requirements	1048
¶ 108	“STOCK-FOR-STOCK” OR “B” REORGANIZATIONS		1051
	¶ 108.1	In General	1051
	¶ 108.2	Statutory Requirements	1051
¶ 109	“ASSETS-FOR-STOCK” OR “C” REORGANIZATIONS		1053
	¶ 109.1	In General	1053
	¶ 109.2	Statutory Requirements	1053
¶ 110	“ASSETS-FOR-CONTROL” OR “D” REORGANIZATIONS		1055
	¶ 110.1	In General	1055
	¶ 110.2	Statutory Requirements	1056
¶ 111	RECAPITALIZATIONS OR “E” REORGANIZATIONS		1058
	¶ 111.1	In General	1058
	¶ 111.2	Statutory Requirements	1058
¶ 112	“F” REORGANIZATIONS		1059
	¶ 112.1	In General	1059
	¶ 112.2	Statutory Requirements	1060
¶ 113	BANKRUPTCY OR “G” REORGANIZATIONS		1061
	¶ 113.1	In General	1061
	¶ 113.2	Statutory Requirements	1061
¶ 114	ECONOMIC SUBSTANCE		1064

Chapter 2

Basic Concepts in Deductibility and Capitalization

¶ 201	INTRODUCTION	2002
¶ 202	ALL EVENTS TEST	2003
	¶ 202.1	Fixed Requirement
	¶ 202.1.1	Contingent Fee Arrangements and the “Fixed” Requirement
	¶ 202.1.2	Contracts for Future Services
	¶ 202.1.3	Contested Liabilities: Code § 461(f)
	¶ 202.1.3.1	The Taxpayer Contests an Asserted Liability?
	¶ 202.1.3.2	The Taxpayer Transfers Money or Other Property in Satisfaction of the Asserted Liability?
	¶ 202.1.3.3	Does the Contest Exist after the Transfer Has Been Made?
	¶ 202.1.3.4	The Economic Performance Requirements of Code § 461(h) Are Satisfied
	¶ 202.1.4	Compensation Related Issues
¶ 202.2	Determinable Requirement	2026

¶ 203	ECONOMIC PERFORMANCE: CODE § 461(h)	2027
¶ 203.1	Payment Liabilities	2028
¶ 203.2	Property or Service Liabilities	2032
¶ 203.2.1	Services or Property Provided to the Taxpayer	2032
¶ 203.2.1.1	Future Services	2033
¶ 203.2.2	Services or Property Provided by the Taxpayer	2036
¶ 203.2.3	Use of Property by the Taxpayer	2036
¶ 203.2.4	Barter Transactions	2037
¶ 203.3	Special Rules	2037
¶ 203.3.1	Recurring Item Exception	2037
¶ 203.3.1.1	The All Events Test (Apart from Economic Performance) Must Be Met as of the End of the Year	2038
¶ 203.3.1.2	Economic Performance with Respect to These Items Must Occur No Later Than 8½ Months after the End of the Taxable Year	2039
¶ 203.3.1.3	Item Must Be Recurring in Nature and Treated Consistently by Taxpayer	2039
¶ 203.3.1.4	Item Is Not Material or Its Accrual for that Year Results in a Better "Match" against Income	2040
¶ 203.3.2	Exception for Liabilities Assumed in Connection with the Sale of a Trade or Business	2042
¶ 204	CLEAR REFLECTION	2044

Chapter 3

Accounting for Restructuring Transactions under Sections 351, 338, 381, and 1001

¶ 301	OVERVIEW	3003
¶ 302	TAXABLE SALE OF A BUSINESS	3004
¶ 302.1	Taxable Sale of Stock	3004
¶ 302.1.1	Determining Proceeds of Sale	3004
¶ 302.1.2	Determining Seller's Basis in Target	3004
¶ 302.1.3	Pre-Transaction Method Changes to Optimize or to Correct Improper Accounting Methods	3008
¶ 302.1.4	Issues Created by Short Taxable Years or Desired Changes in Taxable Years	3009
¶ 302.2	Taxable Sale of Assets	3011

¶ 303	STOCK PURCHASE	3015
¶ 304	TREATMENT OF PURCHASER OF ASSETS OR STOCK WITH CODE § 338(h)(10) ELECTION	3023
¶ 304.1	Methods Affected by Gross Receipts	3024
¶ 304.2	Depreciation	3025
¶ 304.3	Inventories	3026
¶ 304.4	Deferred Revenue	3026
¶ 305	CODE § 351 TRANSACTION	3030
¶ 305.1	Treatment of Transferor in a Code § 351 Transaction	3030
¶ 305.1.1	Acceleration of Deferred Revenue	3031
¶ 305.1.2	Effect on Transferor's Deductions	3032
¶ 305.1.3	Acceleration of Prior Years' Positive Code § 481(a) Adjustments	3035
¶ 305.1.4	Transferor's Erroneous Accounting Methods	3036
¶ 305.2	Treatment of Transferee in Code § 351 Transaction	3037
¶ 305.2.1	Transferee Succeeds to Liability Incurred by Transferor	3039
¶ 305.2.2	Transferee Succeeds to LIFO Inventories	3039
¶ 305.2.3	Transferee Succeeds to Long-Term Contracts of the Transferor	3041
¶ 305.2.4	Transferee Succeeds to Obligation under Deferred Revenue Contracts	3042
¶ 305.2.5	Transferee Succeeds to Supplies and/or Prepaid Expenses	3042
¶ 306	CODE §§ 381(c)(4) AND (c)(5)	3043
¶ 306.1	General Rules	3048
¶ 306.2	Determination of Method	3049
¶ 306.2.1	Acquiring and Target Use the Same Accounting Methods	3049
¶ 306.2.2	Acquiring and Target Use Different Accounting Methods	3050
¶ 306.2.2.1	Separate and Distinct Trade or Business	3050
¶ 306.2.2.2	Integrated Trade or Business	3053
¶ 306.3	Principal Method Determination	3054
¶ 306.3.1	Principal Overall Method	3054
¶ 306.3.2	Specific Item Principal Method	3058
¶ 306.3.3	Principal Inventory Method	3061
	(1) Fair Market Value Comparison	3062
	(2) LIFO Method Election	3062
	(3) Clarification to Specific Rules for Changing Inventory Methods	3064
¶ 306.3.4	Limitations on Use of Principal Method	3065
¶ 306.3.5	Determination of Proper Method in Other Cases	3068
¶ 306.4	Code § 381 Method Change Rules	3069
¶ 306.4.1	Change to Principal Method	3069

¶ 306.4.2	Effect of Prior Elections	3073
¶ 306.4.3	Change to Different Method	3073
	(1) Principal Method Cannot Be Used	3073
	(2) Request to Use Different Method	3074
¶ 306.4.4	Method Change Principles	3074
¶ 306.4.5	Time and Manner of Making Application	3075
¶ 306.5	Special Inventory Combination Rules	3076
¶ 306.5.1	Combining Dollar-Value and Specific Goods LIFO Methods	3076
¶ 306.5.2	Target Corporation Does Not Use LIFO	3077
¶ 306.5.3	Change to Specific Goods LIFO	3078
¶ 306.5.4	Acquiring Corporation Uses FIFO	3078
¶ 306.5.5	Acquiring Corporation and Target Corporation Use FIFO	3079
¶ 306.5.6	No Cut-Off Method Change Permitted	3080
¶ 306.6	Character of Items of Income and Deduction	3080
¶ 307	DUE DILIGENCE	3084
¶ 308	PLANNING AROUND TAXABLE YEARS	3088
¶ 308.1	Short Periods Affect the Ability to Defer Income Recognition from Advance Payments under Either Rev. Proc. 2004-34 or Reg. § 1.451-5	3089
¶ 308.2	Short Periods Affect the Ability to Deduct Deferred Compensation	3090
¶ 308.3	Short Periods Affect the Ability to Deduct Expenses under the Recurring Item Exception Election	3092
¶ 308.4	Short Periods Affect the 12-Month Rule under Reg. § 1.263(a)-4(f)	3092
¶ 308.5	Structure of a Transaction Causes the Less Desirable Taxable Year to Survive	3093
¶ 308.6	Change in Taxable Year before the Transaction	3096
¶ 308.7	Short Periods Accelerate the Amortization of Code § 481(a) Adjustments	3097
¶ 309	PLANNING FOR CORPORATIONS IN BANKRUPTCY	3097
	APPENDIX A—LIFO POOL COMBINATION: Illustration Combining Dollar-Value and Specific Goods LIFO Inventories	3100

Chapter 4

Treatment of Contingent Liabilities

¶ 401	INTRODUCTION	4003
¶ 402	IS THE LIABILITY ASSUMED?	4004
¶ 402.1	Effect of Post-Acquisition Events	4004
¶ 402.2	Financial Statements	4006
¶ 402.3	Expressly Assumed	4007
¶ 402.4	Reflected in Purchase Price	4008

¶ 402.5	Whether the Liability Arose from Actions of Seller or Buyer	4009
¶ 402.6	Was the Buyer Aware of the Liability?	4009
¶ 403	CODE § 1060	4010
¶ 403.1	Introduction	4010
¶ 403.2	Treatment of Buyer in Actual Asset Sale under Code § 1060	4011
¶ 403.2.1	Possible Approaches	4011
¶ 403.2.1.1	Capitalize Immediately	4011
¶ 403.2.1.2	Capitalize When Economically Performed	4012
¶ 403.2.1.3	Immediate Deduction When Paid	4012
¶ 403.2.2	Treatment of Assumed Deferred Compensation Liabilities	4013
¶ 403.2.2.1	General Rules Relating to Contributions to Pension Plans	4013
¶ 403.2.2.2	Qualified Pension Plans	4014
¶ 403.2.2.3	Treatment of Assumed Liabilities Related to Qualified Pension Plans	4015
¶ 403.2.2.4	Nonqualified Deferred Compensation	4018
¶ 403.2.3	Deferred Revenue Liabilities	4018
¶ 403.2.3.1	Assumed Liability Approach	4019
¶ 403.2.3.2	The Bifurcation Approach	4021
¶ 403.2.3.3	Deemed Payment Approach	4022
¶ 403.2.4	Nuclear Decommissioning Liabilities	4027
¶ 403.2.4.1	Treatment of Decommissioning Liabilities Associated with a QDT	4028
¶ 403.2.4.2	Treatment of Decommissioning Liabilities Associated with an NQDT	4028
¶ 403.3	Treatment of Seller under Code § 1060	4030
¶ 403.3.1	Timing of Income Recognition	4031
¶ 403.3.2	Deduction or Offset	4031
¶ 403.3.2.1	Reg. § 1.461-4(d)(5)	4031
¶ 403.3.2.2	The <i>Pierce</i> Case	4033
¶ 403.3.2.3	Impact of Code § 267 on Deductions under Reg. § 1.461-4(d)(5) and <i>Pierce</i>	4034
	(1) Code § 267(a)(1)	4035
	(2) Code § 267(a)(2)	4035
	(3) Deferral under Code § 267(f)	4037
¶ 403.3.3	Deferred Compensation Issues	4040
¶ 403.3.3.1	Code § 404(a)(5) Principles	4042

	¶ 403.3.3.2	Clear Reflection of Income Principles	4043
	¶ 403.3.3.3	Impact of Economic Performance Regulations	4045
	¶ 403.3.3.4	Treating the Assumed Deferred Liability as an Offset	4045
	¶ 403.3.4	Miscellaneous Code § 453 and § 453A Issues	4046
	¶ 403.3.4.1	Code § 453 Contingent Payment - Installment Sales	4046
	¶ 403.3.4.2	Code § 453A Interest Limitation on Contingent Payment - Installment Sales	4047
¶ 404	CODE § 338		4049
	¶ 404.1	In General	4049
	¶ 404.2	Treatment of Buyer under Code § 338	4050
	¶ 404.3	Treatment of Seller under Code § 338	4051
	¶ 404.4	Basis Allocation	4053
	¶ 404.4.1	In General	4053
	¶ 404.4.2	False Bargain Purchase	4053
	¶ 404.5	Indemnification Payments	4054
¶ 405	CODE § 351 TRANSFERS		4056
	¶ 405.1	Tax Effect to Transferor	4056
	¶ 405.2	Tax Effect to Transferee	4060
¶ 406	CONTINGENT LIABILITIES UNDER CODE § 381		4063
	¶ 406.1	In General	4063
	¶ 406.2	Code § 368(a)(1)(D) Transfers	4064
	¶ 406.2.1	Tax Effect to Transferor	4065
	¶ 406.2.2	Tax Effect to Transferee	4065

Chapter 5

Treatment of Transaction Costs Prior to the Final Capitalization Regulations

¶ 501	INTRODUCTION	5002
¶ 502	THE <i>INDOPCO</i> DECISION	5003
	¶ 502.1	Facts
	¶ 502.2	The Lower Court Decision
	¶ 502.3	The Supreme Court Decision
	¶ 502.3.1	Clear Reflection
	¶ 502.3.2	Capitalization Is the Norm
	¶ 502.3.3	"Separate and Distinct" Test
	¶ 502.3.4	"Future Benefit" Test
	¶ 502.4	The Scope of <i>INDOPCO</i>
¶ 503	COSTS INCURRED IN HOSTILE TAKEOVERS	5007
	¶ 503.1	In General
	¶ 503.2	IRS Position

	¶ 503.2.1	Prior to the <i>INDOPCO</i> Tax Court Decision	5007
	¶ 503.2.2	After the <i>INDOPCO</i> Tax Court Decision	5008
	¶ 503.2.2.1	IRS Letter Ruling 8945003	5008
	¶ 503.2.2.2	Technical Advice Memoranda 9043003 and 9043004	5008
	¶ 503.2.3	After the <i>INDOPCO</i> Third Circuit Decision	5009
¶ 503.3	Unsuccessful Defenses Against Hostile Takeovers		5010
	¶ 503.3.1	<i>A.E. Staley Manufacturing v. Commissioner</i>	5010
	¶ 503.3.2	Federated Department Stores	5013
	¶ 503.3.3	Field Service Advice 200103004	5014
¶ 503.4	Redemptions of Stock		5016
¶ 503.5	Pac-Man Defense		5017
¶ 503.6	Poison Pills		5017
¶ 503.7	Abandoned Transactions		5017
¶ 504	COSTS INCURRED IN FRIENDLY ACQUISITIONS		5017
	¶ 504.1	In General	5017
	¶ 504.2	Target Corporation's Expenses	5018
	¶ 504.2.1	<i>Wells Fargo v. Commissioner</i>	5018
	¶ 504.2.2	<i>Victory Markets, Inc. v. Commissioner</i>	5026
	¶ 504.2.3	Compensation Related Payments	5027
	¶ 504.2.3.1	Internal Salaries	5027
	¶ 504.2.3.2	Payments to Terminate Unexercised Stock Options	5029
	¶ 504.2.3.3	Golden Parachutes	5029
¶ 504.3	Acquiring Corporation's Expenses		5031
	¶ 504.3.1	In General	5031
	¶ 504.3.2	Bifurcation of Costs Between Investigatory and Facilitative	5031
	¶ 504.3.2.1	Technical Advice Memorandum 9825005	5032
	¶ 504.3.2.2	Technical Advice Memorandum 199901004	5034
	¶ 504.3.2.3	1993 Field Service Advice Lexis 222	5035
	¶ 504.3.2.4	Revenue Ruling 99-23	5035
¶ 504.3.3	Stock Acquisition Costs		5037
	¶ 504.3.3.1	Hilton Hotels Corp.	5037
	¶ 504.3.3.2	Ellis Banking	5038
¶ 504.3.4	Severance Pay		5038
	¶ 504.3.4.1	Revenue Ruling 67-408	5038
	¶ 504.3.4.2	Revenue Ruling 94-77	5038
	¶ 504.3.4.3	Technical Advice Memoranda 9721002 and 9731001	5039
¶ 505	SHAREHOLDER COSTS		5040
¶ 506	BOND REDEMPTION EXPENSES		5040
¶ 507	NONPROFIT CONVERSIONS		5041

¶ 508	BUSINESS EXPANSIONS	5041
¶ 509	DIVISIVE REORGANIZATIONS	5042
¶ 510	BANKRUPTCY REORGANIZATIONS	5042
¶ 511	PROXY FIGHTS	5044
¶ 512	STOCK ISSUANCE COSTS	5044

Chapter 6

Final Capitalization Regulations

¶ 601	OVERVIEW OF THE FINAL REGULATIONS	6006
¶ 602	AMOUNTS PAID OR INCURRED TO ACQUIRE OR CREATE INTANGIBLES	6007
¶ 602.1	Rules for Acquired Intangibles	6008
¶ 602.2	Rules for Created Intangibles	6010
¶ 602.2.1	Financial Interests	6010
¶ 602.2.2	Prepaid Expenses	6012
¶ 602.2.3	Amounts Paid to Obtain Certain Memberships or Privileges	6012
¶ 602.2.4	Amounts Paid to Obtain Certain Rights from a Governmental Agency	6013
¶ 602.2.5	Amounts Paid to Create, Originate, Enter Into, Renew, or Renegotiate Certain Contract Rights	6014
¶ 602.2.6	Amounts Paid to Terminate Certain Contracts	6017
¶ 602.2.7	Certain Benefits Arising from the Provision, Production, or Improvement of Real Property	6018
¶ 602.2.8	Amounts Paid to Defend or Perfect Title to Intangible Property	6019
¶ 602.3	Separate and Distinct Asset	6020
¶ 602.3.1	Amounts Paid to Create or Terminate Contract Rights	6020
¶ 602.3.2	Amounts Paid in Performing Services	6021
¶ 602.3.3	Creation of Computer Software	6021
¶ 602.3.4	Package Design and Other Similar Costs	6022
¶ 602.4	12-Month Rule	6024
¶ 602.4.1	Background	6024
¶ 602.4.2	The Final Regulations	6025
¶ 602.5	Transaction Costs for Acquired and Created Intangibles	6027
¶ 602.5.1	The "Facilitate" Rule	6028

¶ 602.5.2	Simplifying Conventions	6028
¶ 602.5.3	The "Bright Line" Rule	6031
¶ 602.5.4	Termination (Abandonment) Rule	6031
¶ 603	AMOUNTS PAID OR INCURRED TO FACILITATE AN ACQUISITION OF A TRADE OR BUSINESS, A CHANGE IN CAPITAL STRUCTURE OF A BUSINESS ENTITY, AND CERTAIN OTHER TRANSACTIONS	6032
¶ 603.1	Definition of Facilitate	6032
¶ 603.2	Rules for Certain Acquisitive Transactions: Exception to the Facilitate Rule	6033
¶ 603.2.1	The "Bright Line" Rule	6033
¶ 603.2.2	The "Inherently Facilitative" Rule	6036
¶ 603.2.3	Covered Transactions	6037
¶ 603.2.4	Example	6042
¶ 603.2.5	Top-Up Options	6043
¶ 603.2.6	Interaction with Code § 162(k)	6045
¶ 603.2.7	Interaction with Code § 709	6048
¶ 603.3	Simplifying Conventions	6049
¶ 603.4	Integration Costs	6050
¶ 603.4.1	Costs Analogous to Integration Costs	6052
¶ 603.4.1.1	General Tax Consulting	6052
¶ 603.4.1.2	General Accounting Services	6053
¶ 603.4.1.3	Routine SEC Filings	6053
¶ 603.4.2	Application to Divisive Transactions	6054
¶ 603.4.3	Transfers of Assets Among Disregarded Entities	6054
¶ 603.5	Success-Based Fees	6056
¶ 603.5.1	In General	6056
¶ 603.5.2	Rev. Proc. 2011-29	6059
¶ 603.5.3	Availability of Relief under Reg. § 301.9100	6064
¶ 603.5.4	FIN 48	6065
¶ 603.6	Borrowing Costs	6065
¶ 603.7	Mandatory Stock Distributions	6068
¶ 603.8	Bankruptcy Reorganization Costs	6070
¶ 603.8.1	Scope of "Institute and Administer"	6071
¶ 603.8.1.1	Revenue Ruling 77-204	6072
¶ 603.8.1.2	<i>Placid Oil Company</i>	6074
¶ 603.8.1.3	IRS TAM 9204001	6075
¶ 603.8.1.4	<i>Hillsborough Holdings Corporation</i>	6075
¶ 603.8.2	Analysis of Specific Chapter 11 Professional Fees	6076
¶ 603.8.2.1	Case Administration	6077
¶ 603.8.2.2	Claims Administration, Negotiation, and Objections	6077
¶ 603.8.2.3	Meetings of Creditors	6077
¶ 603.8.2.4	Plan and Disclosure Statement	6077

¶ 603.8.2.5	Relief from Stay Proceedings	6077
¶ 603.8.2.6	Business Operations	6078
¶ 603.8.2.7	Employee Benefits and Pension Services	6078
¶ 603.8.2.8	Fee and Employment Application Services	6079
¶ 603.8.2.9	Fee and Employment Application Objections	6079
¶ 603.8.2.10	Tax Issues	6080
¶ 603.8.2.11	Insurance Matters	6080
¶ 603.8.2.12	Environmental Issues	6080
¶ 603.8.2.13	Utility Matters	6081
¶ 603.8.2.14	Asset Dispositions	6081
¶ 603.8.2.15	Financing	6082
¶ 603.8.3	Holdback of Professional Fees	6082
¶ 603.8.4	Interaction with the Bright Line Date Rule	6083
¶ 603.9	Stock Issuance Costs of Open-End Regulated Investment Companies (RICs)	6084
¶ 603.10	Registrar and Transfer Agent Fees for the Maintenance of Capital Stock Records	6084
¶ 603.11	Termination Payments and Terminated (Abandoned) Transactions	6085
¶ 603.11.1	Termination Payments	6085
¶ 603.11.2	Termination Payments and Code § 1234A	6087
¶ 603.11.3	Abandoned Transactions	6089
¶ 603.11.4	The "Mutually Exclusive" Standard	6089
¶ 603.11.5	Costs That Provide a Benefit in a Subsequent Transaction	6096
¶ 603.11.6	Interaction with the Bright Line Rule	6099
¶ 603.11.7	Interaction with Reg. § 1.263(a)-4	6101
¶ 603.12	Hostile Takeover Defense Costs	6103
¶ 603.13	Treatment of Capitalized Costs	6104
¶ 603.13.1	Prior Law: To What Is the Amount Capitalized?	6104
¶ 603.13.1.1	Acquiring's Cost in a Taxable Asset Acquisition or Deemed Asset Acquisition under Code § 338	6104
¶ 603.13.1.2	Acquiring's Costs in a Taxable Stock Acquisition (and No Election under Code § 338 Is Made)	6105
¶ 603.13.1.3	Target's Costs in a Taxable Asset Acquisition (or Deemed Asset Acquisition under Code § 338 and 338(h)(10))	6105
¶ 603.13.1.4	Target's Costs in a Taxable Sale of Its Stock	6106

¶ 603.13.1.5	Acquiring's Costs in a Tax-Free Reorganization	6107
¶ 603.13.1.6	Target's Costs in a Tax-Free Asset Acquisition	6107
¶ 603.13.1.7	Target's Costs in a Tax-Free Stock Acquisition	6109
¶ 603.13.1.8	Stock Issuance Costs	6110
¶ 603.13.2	Prior Law: Recovery of Capitalized Costs	6110
¶ 603.13.3	The Final Regulations	6112
¶ 603.13.3.1	Acquiring's Cost in a Taxable Asset Acquisition or Deemed Asset Acquisition under Code § 338	6112
¶ 603.13.3.2	Acquiring's Costs in a Taxable Stock Acquisition (and No Election under Code § 338 Is Made)	6112
¶ 603.13.3.3	Target's Costs in a Taxable Asset Acquisition (or Deemed Asset Acquisition under Code § 338 and 338(h)(10))	6112
¶ 603.13.3.4	Target's Costs in a Taxable Sale of Its Stock	6112
¶ 603.13.3.5	Target's Costs in a Tax-Free Reorganization	6113
¶ 603.13.3.6	Acquiring's Costs in a Tax-Free Reorganization	6113
¶ 603.13.3.7	Stock Issuance Transactions	6113
¶ 603.13.4	Notice 2004-18	6114
¶ 603.14	Treatment of Nonfacilitative Costs	6115
¶ 603.14.1	Code § 195	6116
¶ 603.14.1.1	General Requirements of Code § 195	6116
¶ 603.14.1.2	Election Mechanics	6117
¶ 603.14.1.3	Election Mechanics under Reg. § 1.195-1T Issued on 7/8/08	6119
¶ 603.14.1.4	What Costs Qualify as Start-Up Expenses	6120
	(1) Investigatory Costs	6120
	(2) Otherwise Deductible under Code § 162	6121
	(3) Stock Acquisitions as Acquisitions of a New Trade or Business	6122
¶ 603.14.2	Business Expansion Costs	6124
¶ 603.14.3	Distinguishing Between an Existing Business and a New Business	6126
¶ 603.14.3.1	Same Line of Business	6126

¶ 603.14.3.2	Form of the Acquisition	6129
	(1) Direct Acquisition by Subsidiary	6129
	(2) Acquisition Followed by a Dropdown to a Subsidiary	6130
	(3) Cause-to-Be-Directed Transfer to a Subsidiary	6130
	(4) Direct Transfer to a Subsidiary in a Non-Cause-to- Be-Directed Scenario	6131
	(5) Stock Acquisitions	6131
	(6) Recent Changes to the Code § 355 Active Trade or Business Requirement	6132
¶ 603.14.3.3	Summary	6133
¶ 603.14.4	Acquisitions by Holding Companies	6133
¶ 603.14.4.1	Holding Companies and Code § 195	6134
¶ 603.14.4.2	Holding Companies and Business Expansions	6135
	(1) Case Law	6135
	(2) Code § 355	6136
	(3) Code § 195 Legislative History	6138
¶ 603.14.5	Special Considerations for Targets	6139
¶ 603.14.5.1	Targets and Code § 195	6140
¶ 603.14.5.2	Targets and Business Expansions	6141
¶ 603.14.5.3	Business Protection and Maintenance Costs	6142
¶ 603.14.6	Special Considerations in Organic Business Expansions	6146
¶ 603.14.6.1	Authorities Involving Organic Business Expansions	6148
	(1) Code § 195 Legislative History	6149
	(2) NCNB	6150
	(3) IRS TAM 9331001	6151
	(4) Analogous Authority	6151
¶ 603.14.6.2	Potential Disparity Caused by Reg. § 1.263(a)-2T(d)	6153
	(1) Reg. § 1.263(a)-5	6154
	(2) Reg. § 1.263(a)-4	6156
¶ 603.14.6.3	Conclusion	6156
¶ 603.15	Determining Which Entity Incurred the Costs	6157
¶ 603.15.1	Costs Incurred "On Behalf" of the Taxpayer	6158
¶ 603.15.2	Direct and Proximate Benefit/Protect and Promote Test	6161

¶ 603.15.3	Deemed Capital Contributions	6163
¶ 603.15.4	Reverse Subsidiary Mergers	6164
¶ 604	EFFECTIVE DATE AND METHOD CHANGE ISSUES	6166
¶ 604.1	Revenue Procedure 2004-23	6166
¶ 604.2	Revenue Procedure 2005-9	6167
¶ 604.3	LMSB Directive	6168

Chapter 7

Debt Modifications in Connection with Mergers and Acquisitions

¶ 701	INTRODUCTION	7002
¶ 702	OVERVIEW OF THE REGULATIONS	7002
¶ 702.1	In General	7002
¶ 702.2	Testing for a Modification	7002
¶ 702.2.1	Exceptions	7003
¶ 702.2.2	Conversion of Corporate Obligor into LLC	7003
¶ 702.2.3	Testing for a Significant Modification	7005
¶ 702.2.4	Changes in Yield (Reg. § 1.1001-3(e)(2))	7005
¶ 702.2.5	Changes in the Timing of Payments (Reg. § 1.1001-3(e)(3))	7005
¶ 702.2.6	Changes in Obligor or Security (Reg. § 1.1001-3(e)(4))	7006
¶ 702.2.7	Changes in the Nature of an Instrument (Reg. § 1.1001-3(e)(5))	7007
¶ 702.2.8	Changes in Accounting or Financial Covenants (Reg. § 1.1001-3(e)(6))	7008
¶ 702.3	Rules of Application	7008
¶ 703	MERGERS AND ACQUISITIONS—CHANGE IN OBLIGOR	7008
¶ 703.1	In General	7008
¶ 703.2	Change in Obligor on Recourse Debt	7009
¶ 703.3	Change in Payment Expectations	7009
¶ 703.4	Significant Alteration	7010
¶ 703.5	Other Changes in Obligor	7011
¶ 704	CONSEQUENCES OF A SIGNIFICANT MODIFICATION	7011
¶ 704.1	Cancellation of Indebtedness Income	7012
¶ 704.2	Gain or Loss	7014
¶ 704.3	OID Accrual	7015
¶ 704.4	Consequences	7015

Chapter 8

Original Issue Discount (OID) in Mergers and Acquisitions

¶ 801	INTRODUCTION	8002
-------	--------------	------

¶ 801.1	Determination of OID	8004
¶ 801.2	Common OID Situations	8005
¶ 802	CONTINGENT PAYMENT OBLIGATIONS	8008
¶ 802.1	The Noncontingent Bond Method	8008
¶ 802.2	Method for Debt Instruments Not Subject to the Noncontingent Bond Method (Bifurcation Method)	8013
¶ 802.3	Issue Price Considerations	8014
¶ 802.3.1	Contingent Payments	8014
¶ 802.3.2	Cancellation of Debt ("COD") Effects with Respect to Code § 1274 Instruments	8015
¶ 802.4	Definition of Contingent Payments	8016
¶ 803	DEBT ISSUED WITH PROPERTY RIGHTS	8017
¶ 803.1	Debt Issued with an Equity Kicker	8017
¶ 803.2	Debt Issued with a Warrant (Investment Unit)	8017
¶ 803.2.1	Issue Price	8018
¶ 803.2.1.1	Allocation	8018
¶ 803.2.1.2	Publicly Traded Investment Unit	8018
¶ 803.2.1.3	Non-Publicly Traded Investment Unit	8019
¶ 803.2.2	Exercise	8020
¶ 803.3	Debt Issued with a Conversion Right (Convertible Debt)	8020
¶ 803.3.1	Issuance	8020
¶ 803.3.2	Exercise	8021
¶ 803.4	Debt Issued with an Exchange Right (Exchangeable Debt)	8022
¶ 803.4.1	Issuance	8023
¶ 803.4.2	Exercise	8023
¶ 804	APPLICABLE HIGH-YIELD DISCOUNT OBLIGATIONS ("AHYDO"): CODE §§ 163(e)(5) AND 163(i)	8025
¶ 804.1	In General	8025
¶ 804.2	Impact of AHYDO Rules	8027
¶ 804.2.1	AHYDO Interest Not Deductible Until Paid	8027
¶ 804.2.2	Interest in Excess of AFR + 6% Not Deductible	8027
¶ 804.2.3	Temporary Suspension of AHYDO Rules	8028
¶ 805	EARNINGS STRIPPING RULES: CODE § 163(j)	8029
¶ 805.1	Related Party	8030
¶ 805.2	Disqualified Interest	8030
¶ 805.3	Carryforward	8032
¶ 805.4	Computation of the Debt-Equity Ratio	8033
¶ 805.5	Exempt Interest	8033
¶ 805.6	Affiliated Groups	8034
¶ 805.7	Carryover Limitations	8035
¶ 805.8	Interaction with Other Code Sections	8035
¶ 805.9	Application to Foreign Corporation with Effectively Connected Income	8036

¶ 805.10	Anti-Abuse Rule	8037
¶ 805.11	Recent Developments	8037
¶ 806	DISQUALIFIED DEBT INSTRUMENTS—PAYABLE IN EQUITY: CODE § 163(l)	8038
¶ 807	CORPORATE ACQUISITION INDEBTEDNESS: CODE § 279	8039
¶ 807.1	The Special Three-Year Rule	8040
¶ 807.2	Acquisition of a Foreign Corporation	8042

Chapter 9

Amortization of Intangibles under Section 197

¶ 901	OVERVIEW OF SECTION 197	9002
¶ 902	TREATMENT OF SECTION 197 INTANGIBLES	9004
¶ 902.1	Amortization Deduction	9004
¶ 902.1.1	Exclusion for Self-Created Intangibles	9005
¶ 902.1.2	Currently Deductible Expenditures Not Subject to Section 197	9006
¶ 902.1.3	Amount of Amortization Deduction under Section 197	9007
¶ 902.2	Loss Deferral Rule	9009
¶ 902.2.1	General Rule and Basis Adjustment	9009
¶ 902.2.2	Controlled Groups and Taxpayers under Common Control	9011
¶ 902.2.3	Definition of <i>Retained Intangibles</i>	9012
¶ 902.2.4	Interaction with Other Loss Disallowance and Loss Deferral Provisions	9013
¶ 902.2.5	Acceleration of Deferred Loss	9014
¶ 902.2.6	Anti-Avoidance Rule for Non-Recognition Transfers	9015
¶ 902.3	Step-Into-the-Shoes Rule for Non-Recognition and Intercompany Transactions	9016
¶ 902.4	Treatment of Certain Partnership Transactions	9017
¶ 902.5	Treatment as Depreciable Property	9020
¶ 903	CATEGORIES OF SECTION 197 INTANGIBLES	9021
¶ 903.1	Goodwill	9021
¶ 903.2	Going Concern Value	9021
¶ 903.3	Identifiable Intangibles	9022
¶ 903.3.1	Workforce-in-Place	9022
¶ 903.3.2	Information Base	9022
¶ 903.3.3	Know-How and Similar Items	9022
¶ 903.3.4	Customer-Based Intangibles	9022
¶ 903.3.5	Supplier-Based Intangibles	9023
¶ 903.3.6	Items Similar	9023
¶ 903.4	Insurance Contracts	9023

¶ 903.5	Government-Granted Licenses, Permits, and Other Rights	9024
¶ 903.6	Covenants Not-to-Compete	9024
¶ 903.6.1	Meaning of "Substantial Portion Thereof"	9025
¶ 903.6.2	Covenants in Connection with Redemptions	9025
¶ 903.6.3	"In Connection With"	9026
¶ 903.6.4	Covenants in Connection with Tax-Free Reorganizations	9027
¶ 903.6.5	Determination of Basis	9027
¶ 903.6.6	Allocations to "Personal Goodwill"	9028
¶ 903.7	Franchises, Trademarks, and Trade Names	9030
¶ 903.8	Exceptions	9032
¶ 903.8.1	Certain Separately Acquired Rights	9034
¶ 903.8.1.1	What Assets Constitute a Trade or Business?	9034
¶ 903.8.1.2	What Acquisitions Are Taken into Account?	9035
¶ 903.8.2	Interests under Indebtedness	9035
¶ 903.8.3	Interests under Leases of Tangible Property	9036
¶ 903.8.4	Mortgage Servicing Rights	9036
¶ 903.8.5	Costs Incurred in Tax-Free Transactions	9036
¶ 903.8.6	Certain Increments in Value	9037
¶ 904	EFFECTIVE DATE	9037
¶ 905	ANTI-CHURNING RULE	9038
¶ 905.1	General Rule and Exceptions for Gain Recognized by Transferor	9038
¶ 905.2	Related Parties	9040
¶ 905.3	Anti-Churning Anti-Abuse Rule	9043
¶ 905.4	Gain Recognition Election	9043
¶ 906	GENERAL ANTI-ABUSE RULE	9044

Chapter 10

Limitation on Loss Carrybacks—Corporate Equity Reduction Transactions

¶ 1001	OVERVIEW OF CARRYBACK LIMITATION ON CORPORATE EQUITY REDUCTION TRANSACTIONS	10,002
¶ 1001.1	Executive Summary	10,003
¶ 1001.2	Background	10,004
¶ 1001.3	General Operating Provisions	10,007
¶ 1001.4	General Treatment of Consolidated Groups	10,011
¶ 1001.5	Anti-Abuse Rule	10,013
¶ 1002	CORPORATE EQUITY REDUCTION TRANSACTIONS	10,014
¶ 1002.1	Major Stock Acquisitions	10,014
¶ 1002.1.1	"Acquisition" Determination	10,016
¶ 1002.1.2	"Plan" Determination	10,020

¶ 1002.1.3	Potential Application of Code § 279	10,022
¶ 1002.2	Excess Distributions	10,022
¶ 1002.2.1	"Distribution" Determination	10,026
¶ 1002.2.2	Impact of Stock Issuances	10,027
¶ 1003	CORPORATE EQUITY REDUCTION INTEREST LOSS	10,028
¶ 1003.1	Allocable Interest Deductions	10,029
¶ 1003.1.1	In General	10,029
¶ 1003.1.2	Determination of Allocable Interest Deductions Taken into Account	10,035
¶ 1003.2	Application to Consolidated Groups	10,036
¶ 1004	THE AVOIDED COST METHOD	10,039
¶ 1004.1	Background	10,040
¶ 1004.2	General Operating Provisions	10,042
¶ 1004.2.1	Terminology—Indebtedness and Interest (1) Determining Interest Incurred	10,043
¶ 1004.2.2	Terminology—Computation Period and Measurement Dates	10,046
¶ 1004.3	Excess Expenditure Amount	10,048
¶ 1004.3.1	Average Excess Expenditures (1) In General	10,049
	(2) Determining Accumulated CERT Expenditures	10,051
¶ 1004.3.2	Weighted Average Interest Rate (1) In General	10,052
	(2) Elections Affecting WAIR	10,053
¶ 1004.3.3	Excess Expenditure Amounts in Excess of Total Interest (1) In General	10,054
¶ 1004.4	Anti-Abuse Rule	10,056
¶ 1005	REPORTING OBLIGATIONS	10,056

Chapter 11

Consolidated Return Tax Accounting Issues

¶ 1101	METHOD OF ACCOUNTING FOR CONSOLIDATED GROUP MEMBERS	11,002
¶ 1101.1	Background	11,002
¶ 1101.2	Separate Return Treatment of Group Member Method Selection	11,003
¶ 1101.2.1	Anti-Avoidance Rule	11,005
¶ 1101.3	Intercompany Transaction Timing Rules as Method of Accounting	11,007
¶ 1101.3.1	Background	11,007
¶ 1101.3.2	General Rules	11,010

¶ 1101.3.3	Consent for Separate Entity Treatment for Intercompany Transactions	11,012
¶ 1101.4	Intercompany Transactions and Long-Term Contracts	11,017
¶ 1101.5	Method Changes by Consolidated Group Members	11,018
¶ 1102	ACCOUNTING PERIOD ISSUES FOR CONSOLIDATED GROUP MEMBERS	11,019
¶ 1102.1	Taxable Years for Group Members	11,019
¶ 1102.2	Items Included in the Consolidated Return	11,022
¶ 1102.2.1	Items of Common Parent	11,022
¶ 1102.2.2	Items of Subsidiaries	11,022
¶ 1102.2.3	Allocation of Items	11,023
¶ 1102.2.3.1	End of the Day Rule/Next Day Rule	11,023
¶ 1102.2.3.2	Allocation of Items between Taxable Years	11,027
¶ 1102.2.3.3	Special Operating Rules	11,034
¶ 1102.2.3.4	Code § 338 Election Implications	11,036
¶ 1102.3	Due Date of Short-Period Return for Period Prior to Consolidation	11,037
¶ 1102.3.1	Code § 338 Election Implications	11,042
¶ 1103	INTERCOMPANY TRANSACTIONS IN INVENTORY	11,045
¶ 1103.1	Consolidated Return Dollar-Value LIFO Method of Inventory Accounting	11,045
¶ 1103.1.1	Introduction to Dollar-Value LIFO Method of Inventory Accounting	11,045
¶ 1103.1.2	Consolidated Return Dollar-Value LIFO Method of Inventory Accounting—Operating Rules	11,050
¶ 1103.1.2.1	S Uses Dollar-Value LIFO	11,050
¶ 1103.1.2.2	B Uses Dollar-Value LIFO and Has No Inventory Increment	11,052
¶ 1103.1.2.3	B Uses Dollar-Value LIFO and Has an Inventory Increment	11,053
¶ 1103.1.2.4	S or B May Use Other Reasonable Methods	11,056
¶ 1103.2	Special Consolidated Return Inventory Adjustment	11,058
¶ 1103.3	Controlled Group Inventory Sales to Foreign Persons	11,059
¶ 1104	INTERCOMPANY SUBVENTION TRANSACTIONS	11,059
¶ 1104.1	Historical and Current Treatment of Intercompany Subvention Transactions	11,060
¶ 1104.2	Future Treatment of Intercompany Subvention Transactions	11,063
¶ 1105	SEVERAL LIABILITY FOR CONSOLIDATED TAX	11,065

Chapter 12

Tax Accounting Issues in Bankruptcies and Work-outs

¶ 1201	INTRODUCTION	12,002
¶ 1202	CANCELLATION OF INDEBTEDNESS INCOME (COD)	12,002
¶ 1203	EXCLUSIONS OF COD UNDER CODE § 108(a)	12,004
¶ 1203.1	The Bankruptcy and Insolvency Exception	12,005
¶ 1203.1.1	The Bankruptcy Exception	12,006
¶ 1203.1.2	The Insolvency Exception	12,007
¶ 1203.1.3	Attribute Reduction	12,010
¶ 1203.1.3.1	General Attribute Reduction Rule	12,010
¶ 1203.1.3.2	Timing of Attribute Reduction	12,011
¶ 1203.1.3.3	Basis Reduction Rules—Code § 1017	12,013
¶ 1203.1.3.4	Election to Reduce Basis of Depreciable Asset Basis	12,019
¶ 1203.1.3.5	Special Rules for the Reduction of Attributes of a Consolidated Group	12,020
¶ 1203.2	The Qualified Farm Debt Exception	12,024
¶ 1203.3	The Qualified Real Property Business Debt Exception	12,024
¶ 1203.4	Reacquisition Indebtedness Exception	12,027
¶ 1204	OTHER CODE § 108 RULES	12,033
¶ 1204.1	Tax Benefit Rule	12,033
¶ 1204.2	Related Party Acquisitions	12,034
¶ 1204.3	Purchase Money Indebtedness Reductions	12,037
¶ 1204.4	Contributions to Capital	12,039
¶ 1204.5	Stock for Debt	12,039
¶ 1204.6	Debt for Debt Exchanges	12,041
¶ 1205	POSTPETITION INTEREST IN BANKRUPTCY	12,041
¶ 1205.1	Accrual of Postpetition Interest Income	12,041
¶ 1205.2	Deductibility of Postpetition Interest	12,044
¶ 1205.3	Possible Conversion of Qualified Stated Interest to OID	12,046
¶ 1205.4	Application of Payment Ordering Rules to Postpetition Interest in Bankruptcy	12,046
¶ 1206	TREATMENT OF GUARANTORS	12,048
¶ 1206.1	Status as a Guarantor	12,048
¶ 1206.2	Application of Reg. § 1.166-9	12,051
¶ 1206.2.1	Guarantee Agreement Entered into in Course of Guarantor's Trade or Business	12,051
¶ 1206.2.2	Guarantors Entered into Guarantee before Guaranteed Debt Became Worthless	12,052
¶ 1206.2.3	Guarantor Receives Reasonable Consideration for Giving Guarantee	12,052

¶ 1206.2.4	Guarantee Does Not Represent Disguised Capital Contribution	12,052
¶ 1206.2.5	Guarantor Has Legally Enforceable Duty to Make Guarantee Payment	12,056
¶ 1206.2.6	Guarantor's Subrogation Rights Are Worthless	12,057
¶ 1206.3	Issuance of Debt to Satisfy the Guarantee Obligation	12,058
Appendix: Comprehensive Example		13,001
Table of Internal Revenue Code Sections		14,001
Table of Treasury Regulations		15,001
Table of Treasury Rulings		16,001
Table of Cases		17,001
Table of Statutes		18,001
Index		19,001

1

Taxable and Tax-Free Acquisitions

PART 1—TAXABLE STOCK AND ASSET ACQUISITIONS	1003
¶ 101 INTRODUCTION	1003
¶ 102 TAXABLE ACQUISITIONS	1004
¶ 102.1 Taxable Stock Acquisitions	1004
¶ 102.1.1 Tax Consequences to Target Shareholders	1005
¶ 102.1.1.1 Gain or Loss	1005
¶ 102.1.2 Installment Sale Reporting	1006
¶ 102.1.3 The Receipt of Contingent Consideration by the Seller	1008
¶ 102.1.3.1 Closed Transactions	1008
¶ 102.1.3.2 Open Transactions	1008
¶ 102.1.3.3 Characterization of Contingent Consideration as Debt or Equity	1009
¶ 102.1.3.4 Imputed Interest	1010
¶ 102.1.3.5 Contingent Consideration Examples	1011
¶ 102.1.4 Transaction Costs	1012
¶ 102.2 Tax Consequences to Acquirer	1013
¶ 102.3 Tax Consequences to the Target Corporation	1014
¶ 103 TAXABLE ASSET ACQUISITIONS	1014
¶ 103.1 Tax Consequences to the Target Corporation	1015
¶ 103.1.1 Gain or Loss	1015
¶ 103.1.2 Code §1060	1016
¶ 103.1.2.1 Applicable Asset Acquisition	1016
¶ 103.1.2.2 Residual Allocation Method	1017
¶ 103.1.2.3 Examples of Residual Allocation Method	1018
¶ 103.1.2.4 Allocation by the Parties	1019
¶ 103.1.2.5 Redeterminations of Consideration Received	1020
¶ 103.1.2.6 Transaction Costs	1021