

distributor or the transferor corporation, such an agreement will not have the effect of permitting the acquiring corporation to compute its depreciation allowance with respect to such excess basis under the methods provided in section 167(b)(2), (3), or (4). However, the provisions of the agreement will continue to apply with respect to the useful life of the asset.

(e) *Change of method of depreciation.* Although the acquiring corporation is required to use the method of computing depreciation used by the distributor or transferor with respect to depreciable property to which this section applies, such acquiring corporation may use another method with respect to such property if consent of the Commissioner is obtained in accordance with paragraph (e) of §1.446-1. Further, subject to the provisions of paragraph (b) of §1.167(e)-1 the acquiring corporation may change from the declining balance method described in section 167(b)(2) to the straight line method without consent of the Commissioner.

(f) *Successive transactions to which section 381(a) applies.* The provisions of this section shall apply in the case of successive transactions to which section 381(a) applies. Thus, for example, if X Corporation, a transferor corporation, used the sum of the years-digits method under section 167(b)(3) with respect to an asset transferred to Y Corporation, an acquiring corporation, in a transaction to which section 381(a) applies, and subsequently Y Corporation, using the same method, transfers such asset to Z Corporation in a transaction to which section 381(a) also applies, then Z Corporation shall be required to use the sum of the years-digits method with respect to such asset.

(g) *Illustration.* The application of this section may be illustrated by the following example:

*Example.* M and N Corporations compute their taxable incomes on the basis of the calendar year. On December 31, 1959, M Corporation transfers all of its assets to N Corporation in a transaction to which section 381(a) applies. Included among these assets is an item of depreciable property which on that date has an adjusted basis (for determining gain) of \$800,000 after M Corporation takes into account for 1959 its allowance for depreciation under section 167(b)(2). The basis at-

tributable to the asset under section 362(b) is determined to be \$900,000 in the hands of N Corporation. Under the provisions of section 381(c)(6) and paragraph (a) of this section, N Corporation is required to compute its allowance for the depreciation of the asset under section 167(b)(2) for 1960 and subsequent years but only in respect of \$800,000 of its basis. N Corporation may use any reasonable method other than the methods provided in section 167(b)(2), (3), or (4) in computing its depreciation allowance of the remaining \$100,000.

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#### § 1.381(c)(8)-1 Installment method.

(a) *Carryover requirement.* (1) Section 381(c)(8) provides that if, in a transaction to which section 381(a) applies, an acquiring corporation acquires installment obligations, the income from which the distributor or transferor corporation has elected under section 453 and the regulations thereunder to report on the installment method, then the acquiring corporation shall be treated as the distributor or transferor corporation would have been treated under section 453 had it not transferred the installment obligations. Thus, if the distributor or transferor corporation had properly elected to return income from the sale or other disposition of property giving rise to the obligations on the installment method, then the acquiring corporation shall be required to return the income from all such installment obligations in the same manner and to the same extent as the distributor or transferor corporation, unless consent of the Commissioner to use another method is obtained in accordance with paragraph (e) of §1.446-1. Amounts received by the acquiring corporation on or after the date of distribution or transfer with respect to an installment sale made by the distributor or transferor corporation will not be taken into account in applying the limitation under section 453(b)(2) with respect to the amount of payments received in the year of sale or other disposition.

(2) Section 381(c)(8) and this section have no application to sales or other dispositions of property made by the acquiring corporation on or after the date of distribution or transfer. For

provisions defining the date of distribution or transfer, see § 1.381(b)-1(b). See section 381(c)(4) and the regulations thereunder for rules relating to the proper method or combination of methods of accounting to be used by the acquiring corporation.

(b) *Basis of obligations.* The basis in the hands of an acquiring corporation of installment obligations described in section 381(c)(8) and paragraph (a) of this section shall be the same as in the hands of the distributor or transferor corporation.

(c) *Repossession of property sold in prior years.* If the acquiring corporation repossesses property, previously sold by the distributor or transferor corporation, by reason of default by the purchaser in payment of the acquired installment obligations, then the acquiring corporation shall be treated as though it were the vendor corporation for purposes of determining, under section 453 and the regulations thereunder, the gain, loss, income, or deduction with respect to the property repossessed.

[T.D. 6559, 26 FR 2983, Apr. 7, 1961]

**§ 1.381(c)(9)-1 Amortization of bond discount or premium.**

(a) *Carryover requirement.* If, in a transaction to which section 381(a) applies, the acquiring corporation assumes liability for the payment of bonds of a distributor or transferor corporation which were issued at a discount or premium, then under the provisions of section 381(c)(9) the acquiring corporation is to be treated as the distributor or transferor corporation after the date of distribution or transfer for purposes of determining the amount of amortization allowable, or includible, with respect to such discount or premium in computing taxable income. Thus, if subsequent to February 28, 1913, a distributor or transferor corporation issues bonds at a premium and the liability for them is assumed by the acquiring corporation in a transaction to which section 381(a) applies, then the net amount of the premium is income which should be prorated or amortized over the life of the bonds, including the period during which the acquiring corporation is liable upon the obligations assumed. On

the other hand, if a distributor or transferor corporation issues bonds at a discount and the liability for them is assumed by the acquiring corporation in a transaction to which section 381(a) applies, then the net amount of the discount is deductible in computing taxable income but should be prorated or amortized over the life of the bonds, including the period during which the acquiring corporation is liable upon the obligations assumed.

(b) *Expense incurred upon issuance of bonds.* If, in a transaction to which section 381(a) applies, the acquiring corporation assumes liability for bonds of a distributor or transferor corporation which were issued at a discount or premium, the acquiring corporation shall be treated as the distributor or transferor corporation after the date of distribution or transfer with respect to the expense incurred upon the issuance of such bonds.

(c) *Purchase of bonds.* If, in a transaction to which section 381(a) applies, the acquiring corporation assumes liability for bonds of a distributor or transferor corporation which were issued at a discount or premium and if the acquiring corporation subsequently purchases such bonds, then the acquiring corporation shall be treated as the distributor or transferor corporation for the purpose of determining the amount of any income or deduction resulting from the purchase. See paragraph (c) of § 1.61-12. For rules relating to the exchange or substitution of bonds issued by the acquiring corporation for bonds of a distributor or transferor corporation, see paragraph (d) of this section.

(d) *Exchange of new for old bonds.* Notwithstanding any other provision of this section, if—

(1) In a transaction to which section 381(a) applies, bonds of the acquiring corporation are exchanged or substituted for bonds of a distributor or transferor corporation which were issued at a discount or premium, or

(2) Bonds of the acquiring corporation are exchanged or substituted for bonds of a distributor or transferor corporation which were issued at a discount or premium and in respect of which the acquiring corporation has