Plan means the plan of complete liquidation within the meaning of section 332.

Recipient corporation means the corporation described in section 332(b)(1).

Liquidating corporation means the corporation that makes a distribution of property to a recipient corporation pursuant to the plan.

Liquidating distribution means a distribution of property made by the liquidating corporation to a recipient corporation pursuant to the plan.

Substantiation information. Under § 1.6001–1(e), taxpayers are required to retain their permanent records and make such records available to any authorized Internal Revenue Service officers and employees. In connection with a liquidation described in this section, these records should specifically include information regarding the amount, basis, and fair market value of all distributed property, and relevant facts regarding any liabilities assumed or extinguished as part of such liquidation.

Effective/applicability date. This section applies to any taxable year beginning on or after May 30, 2006. However, taxpayers may apply this section to any original Federal income tax return (including any amended return filed on or before the due date (including extensions) of such original return) filed on or after May 30, 2006. For taxable years beginning before May 30, 2006, see § 1.332–6 as contained in 26 CFR part 1 in effect on April 1, 2006.

§ 1.334–1 Basis of property received in liquidations.

(a) In general. Section 334 sets forth rules prescribing the basis of property received in a distribution in partial or complete liquidation of a corporation. The general rule of section 334 is set forth in section 334(a) to the effect that if property is received in a distribution in partial or complete liquidation and if gain or loss is recognized on the receipt of such property, then the basis of the property in the hands of the distributee shall be the fair market value of such property at the time of the distribution. Such general rule has no application to a liquidation to which section 332 or section 333 applies. See section 334(b) and (c).

(b) Transferor’s basis. Unless section 334(b)(2) and subsection (c) of this section apply, property received by a parent corporation in a complete liquidation to which section 332 is applicable shall, under section 334(b)(1), have the same basis in the hands of the parent as its adjusted basis in the hands of the subsidiary. The rule stated above is applicable even though the subsidiary was indebted to the parent on the date the plan of liquidation was adopted and part of such property was received in satisfaction of such indebtedness in a transfer to which section 332(c) is applicable. See § 1.460–4(k)(3)(iv)(B)(2) for rules relating to adjustments to the basis of certain contracts accounted for using a long-term contract method of accounting that are acquired in certain liquidations described in section 332.

§ 1.332–7 Indebtedness of subsidiary to parent.

If section 332(a) is applicable to the receipt of the subsidiary’s property in complete liquidation, then no gain or loss shall be recognized to the subsidiary upon the transfer of such properties even though some of the properties are transferred in satisfaction of the subsidiary’s indebtedness to its parent. However, any gain or loss realized by the parent corporation on such satisfaction of indebtedness, shall be recognized to the parent corporation at the time of the liquidation. For example, if the parent corporation purchased its subsidiary’s bonds at a discount and upon liquidation of the subsidiary the parent corporation receives payment for the face amount of such bonds, gain shall be recognized to the parent corporation. Such gain shall be measured by the difference between the cost or other basis of the bonds to the parent and the amount received in payment of the bonds.
§ 1.337(d)–1

EFFECTS ON CORPORATION

§ 1.337(d)–1 Transitional loss limitation rule.

(a) Loss limitation rule for transitional subsidiary—(1) General rule. No deduction is allowed for any loss recognized by a member of a consolidated group with respect to the disposition of stock of a transitional subsidiary. However, for transactions involving loss shares of subsidiary stock occurring on or after September 17, 2008, see §1.1502–36. Further, this section does not apply to a transaction that is subject to §1.1502–36.

(2) Allowable loss—(i) In general. Paragraph (a)(1) of this section does not apply to the extent the taxpayer establishes that the loss is not attributable to the recognition of built-in gain by any transitional subsidiary on the disposition of an asset (including stock and securities) after January 6, 1987.

(ii) Statement of allowable loss. Paragraph (a)(2)(i) of this section applies only if a separate statement entitled “Allowable Loss Under §1.337(d)–1(a)’’ is filed with the taxpayer’s return for the year of the stock disposition. If the separate statement is required to be filed with a return the due date (including extensions) of which is before January 16, 1991, or with a return due (including extensions) after January 15, 1991 but filed before that date, the statement may be filed with an amended return for the year of the disposition or with the taxpayer’s first subsequent return the due date (including extensions) of which is after January 15, 1991.

(iii) Contents of statement. The statement required under paragraph (a)(2)(i) of this section must contain—

(A) The name and employer identification number (E.I.N.) of the transitional subsidiary.

(B) The basis of the stock of the transitional subsidiary immediately before the disposition.

(C) The amount realized on the disposition.

(D) The amount of the deduction not disallowed under paragraph (a)(1) of this section by reason of this paragraph (a)(2).

(E) The amount of loss disallowed under paragraph (a)(1) of this section.

(3) Coordination with loss deferral and other disallowance rules. (i) For purposes of this section, the rules of §1.1502–20(a)(3) apply, with appropriate adjustments to reflect differences between the approach of this section and that of §1.1502–20.

(ii) Other loss deferral rules. If paragraph (a)(1) of this section applies to a loss subject to deferral or disallowance under any other provision of the Code or the regulations, the other provision applies to the loss only to the extent it is not disallowed under paragraph (a)(1).

(4) Definitions. For purposes of this section—

(i) The definitions in §1.1502–1 apply.

(ii) Transitional subsidiary means any corporation that became a subsidiary of the group (whether or not the group was a consolidated group) after January 6, 1987. Notwithstanding the preceding sentence, a subsidiary is not a transitional subsidiary if the subsidiary (and each predecessor) was a member of the group at all times after the subsidiary’s (and each predecessor’s) organization.

(iii) Built-in gain of a transitional subsidiary means gain attributable, directly or indirectly, in whole or in part, to any excess of value over basis, determined immediately before the transitional subsidiary became a subsidiary, with respect to any asset owned directly or indirectly by the transitional subsidiary at that time.

(iv) Disposition means any event in which gain or loss is recognized, in whole or in part.

(v) Value means fair market value.

(5) Examples. For purposes of the examples in this section, unless otherwise stated, the group files consolidated returns on a calendar year basis, the facts set forth the only corporate activity, and all sales and purchases are with unrelated buyers or sellers. The basis of each asset is the same determining earnings and profits adjustments and taxable income. Tax liability and its effect on basis, value, and earnings and profits are disregarded. Investment adjustment system means the rules of §1.1502–32. The principles of this paragraph (a) are illustrated by the following examples: