


## Reg. Section 1.331-1(c)

### Corporate liquidations.

(a) In general. Section 331 [26 USCS § 331] contains rules governing the extent to which gain or loss is recognized to a shareholder receiving a distribution in complete or partial liquidation of a corporation. Under section 331(a)(1) [26 USCS § 331(a)(1)], it is provided that amounts distributed in complete liquidation of a corporation shall be treated as in full payment in exchange for the stock. Under section 331(a)(2) [26 USCS § 331(a)(2)], it is provided that amounts distributed in partial liquidation of a corporation shall be treated as in full or part payment in exchange for the stock. For this purpose, the term "partial liquidation" shall have the meaning ascribed in section 346 [26 USCS § 346]. If section 331 [26 USCS § 331] is applicable to the distribution of property by a corporation, section 301 [26 USCS § 301] (relating to the effects on a shareholder of distributions of property) has no application other than to a distribution in complete liquidation to which section 316(b)(2)(B) [26 USCS § 316(b)(2)(B)] applies. See paragraph (b)(2) of § 1.316-1.

(b) Gain or loss. The gain or loss to a shareholder from a distribution in partial or complete liquidation is to be determined under section 1001 [26 USCS § 1001] by comparing the amount of the distribution with the cost or other basis of the stock. The gain or loss will be recognized to the extent provided in section 1002 [26 USCS § 1002] and will be subject to the provisions of parts I, II, and III (section 1201 and following [26 USCS §§ 1201 et seq.]), subchapter P, chapter 1 of the Code.



(c) Recharacterization. A liquidation which is followed by a transfer to another corporation of all or part of the assets of the liquidating corporation or which is preceded by such a transfer may, however, have the effect of the distribution of a dividend or of a transaction in which no loss is recognized and gain is recognized only to the extent of "other property." See sections 301 and 356 [26 USCS §§ 301 and 356].

(d) Reporting requirement--(1) General rule. Every significant holder that transfers stock to the issuing corporation in exchange for property from such corporation must include on or with such holder's return for the year of such exchange the statement described in paragraph (d)(2) of this section unless--

(i) The property is part of a distribution made pursuant to a corporate resolution reciting that the distribution is made in complete liquidation of the corporation; and

(ii) The issuing corporation is completely liquidated and dissolved within one year after the distribution.

(2) Statement. If required by paragraph (d)(1) of this section, a significant holder must include on or with such holder's return a statement entitled, "STATEMENT PURSUANT TO § 1.331-1(d) BY [INSERT NAME AND TAXPAYER IDENTIFICATION NUMBER (IF ANY) OF TAXPAYER], A SIGNIFICANT HOLDER OF THE STOCK OF [INSERT NAME AND EMPLOYER IDENTIFICATION NUMBER (IF ANY) OF ISSUING CORPORATION]." If a significant holder is a controlled foreign corporation (within the meaning of section 957 [26

*USCS § 957*)), each United States shareholder (within the meaning of section 951(b) [*26 USCS § 951(b)*]) with respect thereto must include this statement on or with its return. The statement must include--

(i) The fair market value and basis of the stock transferred by the significant holder to the issuing corporation; and

(ii) A description of the property received by the significant holder from the issuing corporation.

(3) Definitions. For purposes of this section:

(i) Significant holder means any person that, immediately before the exchange--

(A) Owned at least five percent (by vote or value) of the total outstanding stock of the issuing corporation if the stock owned by such person is publicly traded; or

(B) Owned at least one percent (by vote or value) of the total outstanding stock of the issuing corporation if the stock owned by such person is not publicly traded.

(ii) Publicly traded stock means stock that is listed on--

(A) A national securities exchange registered under section 6 of the Securities Exchange Act of 1934 (*15 U.S.C. 78f*); or

(B) An interdealer quotation system sponsored by a national securities association registered under section 15A of the Securities Exchange Act of 1934 (*15 U.S.C. 78o-3*).

(iii) Issuing corporation means the corporation that issued the shares of stock, some or all of which were transferred by a significant holder to such corporation in the exchange described in paragraph (d)(1) of this section.

(4) Cross reference. See section 6043 of the Code [*26 USCS § 6043*] for requirements relating to a return by a liquidating corporation.

(e) Example. The provisions of this section may be illustrated by the following example:

Example. A, an individual who makes his income tax returns on the calendar year basis, owns 20 shares of stock of the P Corporation, a domestic corporation, 10 shares of which were acquired in 1951 at a cost of \$ 1,500 and the remainder of 10 shares in December 1954 at a cost of \$ 2,900. He receives in April 1955 a distribution of \$ 250 per share in complete liquidation, or \$ 2,500 on the 10 shares acquired in 1951, and \$ 2,500 on the 10 shares acquired in December 1954. The gain of \$ 1,000 on the shares acquired in 1951 is a long-term capital gain to be treated as provided in parts I, II, and III (section 1201 and following [*26 USCS §§ 1201 et seq.*]), subchapter P, chapter 1 of the Code. The loss of \$ 400 on the shares acquired in 1954 is a short-term capital loss to be treated as provided in parts I, II, and III (section 1201 and following [*26 USCS §§ 1201 et seq.*]), subchapter P, chapter 1 of the Code.

(f) Effective/applicability date. Paragraph (d) of this section applies to any taxable year beginning on or after May 30, 2006. However, taxpayers may apply paragraph (d) of 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) timely filed on or after May 30, 2006. For taxable years beginning before May 30, 2006, see § 1.331-1 as contained in 26 CFR part 1 in effect on April 1, 2006.