

§ 1.381(c)(16)-1

26 CFR Ch. I (4-1-11 Edition)

(c) *Special rule.* For purposes of this section, if, in a transaction otherwise described in this section, an acquiring corporation acquires real estate—(1) of which the distributor or transferor corporation is the legal or equitable owner immediately before the acquisition, and (2) which is subject to indebtedness that, with respect to the distributor or transferor corporation, is indebtedness described in this section immediately before the acquisition, then the acquiring corporation will be treated as having assumed such indebtedness, provided it shows to the satisfaction of the Commissioner that under all the facts and circumstances it bears the burden of discharging such indebtedness.

[T.D. 6949, 33 FR 5524, Apr. 9, 1968; 33 FR 6091, Apr. 20, 1968]

§ 1.381(c)(16)-1 Obligations of distributor or transferor corporation.

(a) *Deduction allowed to acquiring corporation.* (1) If, in a transaction to which section 381(a) applies, the acquiring corporation assumes an obligation of a distributor or transferor corporation which gives rise to a liability after the date of distribution or transfer and if the distributor or transferor corporation would be entitled to deduct such liability in computing taxable income were it paid or accrued after that date by such corporation, then, under the provisions of section 381(c)(16) and this section, the acquiring corporation shall be entitled to deduct such liability as if it were the distributor or transferor corporation. However, in the case of a transaction to which section 381(a)(2) applies, section 381(c)(16) shall not apply to an obligation which is reflected in the amount of consideration, that is, the stock, securities, or other property, transferred by the acquiring corporation to a transferor corporation or its shareholders in exchange for the property of that transferor corporation. An obligation which is so reflected in the amount of consideration will be treated as an item or tax attribute not specified in section 381(c)(16). Such an obligation is subject to section 381(c)(4). See subparagraph (2) of this paragraph. Any deduction allowed under section 381(c)(16) to the acquiring corporation shall be taken by that corporation in the taxable year

ending after the date of distribution or transfer in which the liability is paid or accrued by that corporation, as the case may be.

(2) In order to determine whether, in the case of obligations of a distributor or transferor corporation assumed by an acquiring corporation, section 381(c)(16) and this section, or section 381(c)(4) and the regulations thereunder, apply, the following rules shall govern:

(i) If the obligation gave rise to a liability before the date of distribution or transfer, see section 381(c)(4) and the regulations thereunder.

(ii) If the obligation gives rise to a liability after the date of distribution or transfer, and the obligation was not reflected in the amount of consideration transferred by the acquiring corporation to the distributor or transferor corporation or its shareholders in exchange for the property of the distributor or transferor corporation, then section 381(c)(16) and this section shall apply.

(iii) In the case of a transaction to which section 381(a)(1) applies, if the obligation gives rise to a liability after the date of a distribution, and the obligation was reflected in the amount of consideration transferred by the acquiring corporation to the distributor corporation or its shareholders in exchange for the property of the distributor corporation, then section 381(c)(16) and this section shall apply.

(iv) In the case of a transaction to which section 381(a)(2) applies, if the obligation gives rise to a liability after the date of a transfer, and the obligation was reflected in the amount of consideration transferred by the acquiring corporation to the transferor corporation or its shareholders in exchange for the property of the transferor corporation, then see section 381(c)(4) and the regulations thereunder.

(3) The rules of this section apply to obligations assumed by agreement of the parties as well as by operation of law.

(4) For purposes of this section, an obligation of a distributor or transferor corporation gives rise to a liability when the liability would be accruable

by a taxpayer using the accrual method of accounting notwithstanding the fact that the distributor or transferor corporation is not using the accrual method of accounting. See paragraph (a)(2) of § 1.461-1.

(5) In the case of a transaction to which section 381(a)(2) applies, the determination as to whether or not an obligation was reflected in the amount of consideration transferred by the acquiring corporation to the transferor corporation or its shareholders in exchange for the property of the transferor corporation shall be made on the basis of all the facts of each particular transfer. Where, on the date of distribution or transfer, the parties were aware of the existence of a specific obligation and reduced the amount of consideration to be transferred by the acquiring corporation by a specific amount because of the existence of such obligation, then such obligation shall be considered to have been reflected in the amount of consideration transferred. In the absence of such facts, it shall be presumed that the obligation was not reflected in the amount of consideration transferred.

(b) *Distribution or transfer occurring under the Internal Revenue Code of 1939.* Subject to the provisions of section 381(c)(16) and this section, a corporation which would have been an acquiring corporation (under the provisions of paragraph (b) of § 1.381(a)-1) in a transaction to which section 381(a) applies if the date of distribution or transfer had occurred on or after the effective date of the provisions of subchapter C, chapter 1 of the Internal Revenue Code of 1954, applicable to a liquidation or reorganization, as the case may be, shall be entitled to take a deduction for amounts paid or accrued in any taxable year beginning after December 31, 1953, in respect of any obligation which it has assumed from a corporation which would have been a distributor or transferor corporation in such transaction. However, this paragraph shall have no application to a situation described in paragraph (a)(2)(iv) of this section.

(c) *Examples.* The application of the foregoing rules may be illustrated by the following examples:

Example 1. X Corporation and Y Corporation compute their taxable income on the basis of the calendar year, and both corporations use an accrual method of accounting. On December 31, 1954, Y Corporation acquires the assets of X Corporation in a transfer to which section 381(a)(2) applies. By reason of State law, Y Corporation assumes responsibility for all of the obligations for which X Corporation is then, or may become, liable. The parties have no knowledge of any specific obligations of X Corporation which are not yet fixed and ascertainable, but it is agreed to reduce the amount of consideration that Y Corporation is to transfer in exchange for the assets of X Corporation by \$5,000 to reflect any unforeseen contingent liabilities of X Corporation for which Y Corporation might subsequently become liable. After the date of the transfer, a claim for damages on account of the alleged negligence of an alleged agent of X Corporation is filed. After commencement of legal action by the claimant and in order to eliminate the possibility of injury to its business, Y Corporation settles the claim in 1955 by paying the claimant the amount of \$3,000. Assuming that such sum would have been deductible under section 162 if paid by X Corporation, Y Corporation is entitled to deduct such sum in accordance with the provisions of section 381(c)(16) and this section in computing its taxable income for 1955, since the claim gave rise to a liability after the date of transfer, the parties were not aware of a specific obligation, and the specific obligation was not reflected in the consideration transferred by Y Corporation in exchange for the assets of X Corporation.

Example 2. Assume the same facts as in *Example (1)*, except that the claim for damages was filed prior to the transfer of X Corporation's assets to Y Corporation, but the parties considered the chances for recovery by the claimant so remote that no specific amount other than the \$5,000 reduction in consideration for all contingent liabilities as a whole is reflected in the consideration transferred by Y Corporation in exchange for the assets of X Corporation. Assuming that such sum would have been deductible under section 162 if paid by X Corporation, the \$3,000 paid by Y Corporation in 1955 is deductible in accordance with the provisions of section 381(c)(16) and this section in 1955.

Example 3. Assume the same facts as in *Example (1)*, except that the parties consider the chances of recovery by the claimant of sufficient probability that Y Corporation reduces the amount of consideration it transfers in exchange for the assets of X Corporation by \$1,000 in addition to the \$5,000 reduction for all other contingent liabilities. The \$3,000 paid by Y Corporation in 1955 is not deductible under section 381(c)(16) and this section, since the specific obligation was reflected in the consideration transferred by Y

Corporation in exchange for the assets of X Corporation. The deductibility of the payment is accordingly governed by the provisions of section 381(c)(4) and the regulations thereunder. Similarly, if in this case Y Corporation had transferred \$10,000 less in consideration for the assets of X Corporation because of this particular claim, Y Corporation would not be entitled to any deduction for the \$3,000 paid in 1955 under section 381(c)(16) and this section, and the deductibility of the payment would be governed by the provisions of section 381(c)(4) and the regulations thereunder. If the date of transfer of X Corporation's assets had occurred prior to the effective date of subchapter C, chapter 1 of the Internal Revenue Code of 1954, applicable to a reorganization, no deduction would be allowed to Y Corporation under that section.

[T.D. 6750, 29 FR 11267, Aug. 5, 1964]

§ 1.381(c)(17)-1 Deficiency dividend of personal holding company.

(a) *Carryover requirement.* If a determination (as defined in section 547(c)) establishes that a distributor or transferor corporation in a transaction to which section 381(a) applies is liable for personal holding company tax imposed by section 541 (or by a corresponding provision of prior income tax law) for any taxable year ending on or before the date of distribution or transfer, then in computing such tax the deduction described in section 547 shall be allowed pursuant to section 381(c)(17) to such corporation for the amount of deficiency dividends paid by the acquiring corporation with respect to the distributor or transferor corporation. Except as otherwise provided in this section, the provisions of section 547 and the regulations thereunder apply with respect to a deficiency dividend deduction allowable pursuant to section 381(c)(17).

(b) *Deficiency dividends paid by the acquiring corporation with respect to the distributor or transferor corporation.* A deficiency dividend paid by the acquiring corporation with respect to the distributor or transferor corporation is a distribution that would satisfy the definition of a deficiency dividend under section 547(d)(1) if paid by the distributor or transferor corporation to its own shareholders except that it shall be paid by the acquiring corporation to its own shareholders and shall be paid after the date of distribution or transfer and on, or within 90 days after,

the date of the determination but before the acquiring corporation files claim under paragraph (c) of this section.

(c) *Claim for deduction.* A claim for a deduction under this section shall be made by the acquiring corporation on Form 976, and shall be filed within 120 days after the date of the determination. The form shall contain, or be accompanied by, the information required under paragraph (b)(2) of § 1.547-2 in sufficient detail to properly identify the facts with the distributor or transferor corporation and the acquiring corporation. The statement required with respect to the shareholders on the date of payment of the deficiency dividend shall relate to the shareholders of the acquiring corporation, and the required certified copy of the resolution authorizing the payment of the dividend shall be that of the board of directors, or other authority, of the acquiring corporation. Necessary changes may be made in Form 976 in order to carry out the provisions of this paragraph. The claim shall be filed with the district director for the internal revenue district in which the return of the distributor or transferor corporation to which such claim relates was filed.

(d) *Effect on dividends paid deduction.* A deficiency dividend paid by the acquiring corporation, which is allowable as a deduction to a distributor or transferor corporation pursuant to section 381(c)(17), shall not become a part of the dividends paid deduction of the acquiring corporation under section 561 for any taxable year.

(e) *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, if X Corporation transfers its assets to Y Corporation in a transaction to which section 381(a) applies and if Y Corporation transfers its assets to Z Corporation in a subsequent transaction to which section 381(a) applies, then, subject to the provisions of this section, X Corporation may take a deficiency dividend deduction for the amount of deficiency dividends paid by Z Corporation with respect to X Corporation.