

the surrender of any of its own stock, the amount of cash received by B is treated as a distribution of property to which the rules of section 301 apply.

§ 1.356-3 Rules for treatment of securities as “other property”.

(a) As a general rule, for purposes of section 356, the term *other property* includes securities. However, it does not include securities permitted under section 354 or section 355 to be received tax free. Thus, when securities are surrendered in a transaction to which section 354 or section 355 is applicable, the characterization of the securities received as “other property” does not include securities received where the principal amount of such securities does not exceed the principal amount of securities surrendered in the transaction. If a greater principal amount of securities is received in an exchange described in section 354 (other than subsection (c) or (d) thereof) or section 355 over the principal amount of securities surrendered, the term *other property* includes the fair market value of such excess principal amount as of the date of the exchange. If no securities are surrendered in exchange, the term *other property* includes the fair market value, as of the date of receipt, of the entire principal amount of the securities received.

(b) Except as provided in § 1.356-6, for purposes of this section, a right to acquire stock that is treated as a security for purposes of section 354 or 355 has no principal amount. Thus, such right is not other property when received in a transaction to which section 356 applies (regardless of whether securities are surrendered in the exchange). This paragraph (b) applies to transactions occurring on or after March 9, 1998.

(c) In the examples in this paragraph (c), stock means common stock and *warrants* means rights to acquire common stock. The following examples illustrate the rules of paragraph (a) of this section:

Example 1. A, an individual, exchanged 100 shares of stock for 100 shares of stock and a security in the principal amount of \$1,000 with a fair market value of \$990. The amount of \$990 is treated as “other property.”

Example 2. B, an individual, exchanged 100 shares of stock and a security in the prin-

cipal amount of \$1,000 for 300 shares of stock and a security in the principal amount of \$1,500. The security had a fair market value on the date of receipt of \$1,575. The fair market value of the excess principal amount, or \$525, is treated as “other property.”

Example 3. C, an individual, exchanged a security in the principal amount of \$1,000 for 100 shares of stock and a security in the principal amount of \$900. No part of the security received is treated as “other property.”

Example 4. D, an individual, exchanged a security in the principal amount of \$1,000 for 100 shares of stock and a security in the principal amount of \$1,200 with a fair market value of \$1,100. The fair market value of the excess principal amount, or \$183.33, is treated as “other property.”

Example 5. E, an individual, exchanged a security in the principal amount of \$1,000 for another security in the principal amount of \$1,200 with a fair market value of \$1,080. The fair market value of the excess principal amount, or \$180, is treated as “other property.”

Example 6. F, an individual, exchanged a security in the principal amount of \$1,000 for two different securities each in the principal amount of \$750. One of the securities had a fair market value of \$750, the other had a fair market value of \$600. One-third of the fair market value of each security (\$250 and \$200) is treated as “other property.”

Example 7. G, an individual, exchanged stock for stock and a warrant. The warrant had no principal amount. Thus, G received no excess principal amount within the meaning of section 356(d).

Example 8. H, an individual, exchanged a warrant for stock and a warrant. The warrants had no principal amount. Thus, H received no excess principal amount within the meaning of section 356(d).

Example 9. I, an individual, exchanged a warrant for stock and a debt security. The warrant had no principal amount. The debt security had a \$100 principal amount. I received \$100 of excess principal amount within the meaning of section 356(d).

[T.D. 6500, 25 FR 11607, Nov. 26, 1960, as amended by T.D. 7616, 44 FR 26869, May 8, 1979; T.D. 8752, 63 FR 410, Jan. 6, 1998; T.D. 8882, 65 FR 31078, May 16, 2000]

§ 1.356-4 Exchanges for section 306 stock.

If, in a transaction to which section 356 is applicable, other property or money is received in exchange for section 306 stock, an amount equal to the fair market value of the property plus the money, if any, shall be treated as a