

immaterial whether the property is purchased from the shareholders of the corporation or from persons other than such shareholders. The property, however, must be property which, in the hands of the corporation, is property of a kind described in section 341(b)(3). The determination whether property is of a kind described in section 341(b)(3) shall be made without regard to the fact that the corporation is formed or availed of with a view to the action described in section 341(b)(1).

(7) Section 341 is applicable whether the shareholder is an individual, a trust, an estate, a partnership, a company, or a corporation.

(b) *Section 341 assets.* For the purposes of this section, the term “section 341 assets” means the following listed property if held for less than 3 years:

(1) Stock in trade of the corporation, or other property of a kind which would properly be included in the inventory of the corporation if on hand at the close of the taxable year.

(2) Property held primarily for sale to customers in the ordinary course of a trade or business.

(3) Property used in a trade or business as defined in section 1231(b) and held for less than 3 years, except property that is or has been used in connection with the manufacture, construction, production or sale of property described in subparagraphs (1) and (2) of this paragraph.

(4) Unrealized receivables or fees pertaining to property listed in this paragraph. The term *unrealized receivables or fees* means any rights (contractual or otherwise) to payment for property listed in subparagraphs (1), (2), and (3) of this paragraph which has been delivered or is to be delivered and rights to payments for services rendered or to be rendered, to the extent such rights have not been included in the income of the corporation under the method of accounting used by it. In determining whether the assets referred to in this paragraph have been held for 3 years, the time such assets were held by a transferor shall be taken into consideration (section 1223). However, no such period shall begin before the date the manufacture, construction, production, or purchase of such assets is completed.

§ 1.341-3 Presumptions.

(a) Unless shown to the contrary a corporation shall be considered to be a collapsible corporation if at the time of the transactions described in § 1.341-1 the fair market value of the section 341 assets held by it constitutes 50 percent or more of the fair market value of its total assets and the fair market value of the section 341 assets is 120 percent or more of the adjusted basis of such assets. In determining the fair market value of the total assets, cash, obligations which are capital assets in the hands of the corporation, governmental obligations, and stock in any other corporation shall not be taken into consideration. The failure of a corporation to meet the requirements of this paragraph, shall not give rise to the presumption that the corporation was not a collapsible corporation.

(b) The following example will illustrate the application of this section:

Example A corporation, filing its income tax returns on the accrual basis, on July 31, 1955, owned assets with the following fair market values: Cash, \$175,000; note receivable held for investment, \$130,000; stocks of other corporations, \$545,000; rents receivable, \$15,000; and a building constructed by the corporation in 1953 and held thereafter as rental property, \$750,000. The adjusted basis of the building on that date was \$600,000. The only debt outstanding was a \$500,000 mortgage on the building. On July 31, 1955, the corporation liquidated and distributed all of its assets to its shareholders. In computing whether the fair market value of the section 341 assets (only the building) is 50 percent or more of the fair market value of the total assets, the cash, note receivable, and stocks of other corporations are not taken into account in determining the value of the total assets, with the result that the fair market value of the total assets was \$765,000 (\$750,000 (building) plus \$15,000 rents receivable). Therefore, the value of the building is 98 percent of the total assets (\$750,000÷\$765,000). The value of the building is also 125 percent of the adjusted basis of the building (\$750,000÷\$600,000). In view of the above facts, there arises a presumption that the corporation is a collapsible corporation.

§ 1.341-4 Limitations on application of section.

(a) *General.* This section shall apply only to the extent that the recognized gain of a shareholder upon his stock in a collapsible corporation would be considered, but for the provisions of this