

2 years of the last purchase, the basis of all the assets received is the amount paid for the stock. Under prior law, however, in order to prevent manipulation, stock purchased from a person related to the buyer by the attribution rules (under section 318) was not treated as stock "purchased."

Cases have been cited where it is necessary to acquire control of one corporation in order to obtain an 80 percent or greater stock interest in another corporation. For example, assume that one corporation desires to purchase the stock of a second corporation and does in fact purchase 45 percent of its stock directly. However, 40 percent of the stock of the second corporation is owned by a third corporation, and the third corporation does not wish to sell the stock of the second corporation. In order to acquire the stock of the second corporation, therefore, the first corporation purchases over 50 percent of the third corporation's stock and then causes this third corporation to sell to it the 40 percent of the stock of second corporation owned by the third. Under prior law, since at the time of the sale the first corporation owns more than 50 percent of the stock of the third corporation, the two corporations would have been classified as related under the attribution rules (sec. 318) and the first corporation would not have been treated as the purchaser of more than 80 percent of the stock of the second although it acquired directly or indirectly all of this stock for cash within a 12-month period.

The act amends present law to provide that stock purchased from a related corporation (after control of it is acquired) is to be treated as purchased if the stock of the related corporation (representing a controlling interest) was purchased within the specified period. The amendment provides that the 12-month period within which the desired stock must be acquired begins with the date of the first direct acquisition by purchase of such stock, or the date on which 50 percent of the stock of the corporation holding such stock was acquired, whichever is earlier.

The new definition of purchase applies with respect to acquisitions of stock after December 31, 1965. The provision for measuring the time period of stock acquisition applies with respect to distributions made after November 13, 1966.

(b) *Installment notes*.—When one corporation buys more than 80 percent of the stock of another within 12 months and causes the corporation acquired to be liquidated within 2 years of the last acquisition of stock, generally no gain is recognized to the distributing corporation (unless it is a corporation which elected sec. 341(f) treatment to avoid danger of being treated as a collapsible corporation, or unless the sections dealing with the recapture of depreciation apply).

Under prior law, if the property received on a liquidation of the type described above (to which sec. 334(b)(2) applies) consisted of installment notes, then the gain which would normally be taxed on the sale or collection of such notes might, in part or in whole, permanently escape income taxation. This resulted where the basis of such notes were raised to the amount paid for them by the acquiring corporation even though no gain was recognized to the distributing corporation.

The act provides that installment notes transferred in a liquidation of the type described above are to be treated as "disposed of" for purposes of the installment sale provision (sec. 453(d)). As a result,