



Federal Tax ADVISORY ■

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Book Value Sales

Corporate groups like to have affiliates sell property to each other at book value. They know what book value is, but may not know fair market value. However, using book value as the sales price, even within consolidated groups, can cause more problems than it avoids. So whenever a book value sale is proposed, someone should investigate those problems.

Book value tends to be less than fair market, although the opposite is possible. If a subsidiary makes a bargain sale to its shareholder, the bargain element is a dividend. If a shareholder makes a bargain transfer to a subsidiary, the bargain element usually is more deemed stock. If a sister makes a bargain sale to a brother corporation, it gets complicated.

Basic Subchapter C logic says that the seller distributed the bargain element of the sold property to the common shareholder. But Section 482 says that the buyer paid fair market value and the seller distributed the cash to the common shareholder.

Those two approaches can produce different tax consequences. Surprisingly, the regulations allow the corporate seller to electively apply Section 482 to the bargain sale. If it does not, then you never know when the IRS will show up and apply Section 482 on audit. So there are really three possible alternative treatments for a cross-chain bargain sale.

Uncertainty usually is not what corporate tax departments want. Beware the bargain sale.

For more information, please contact [Jack Cummings](#) at 919.862.2302.

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