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Internal Revenue Code Section 311(b)(1)

Taxability of corporation on distribution

(a) General rule.

Except as provided in subsection (b) , no gain or loss shall be recognized to a corporation on the distribution (not in complete liquidation) with respect to its stock of-

(1) its stock (or rights to acquire its stock), or

(2) property.

(b) Distributions of appreciated property.

(1) In general.

If-

(A) a corporation distributes property (other than an obligation of such corporation) to a shareholder in a distribution to which subpart A applies, and

(B) the fair market value of such property exceeds its adjusted basis (in the hands of the distributing corporation),

then gain shall be recognized to the distributing corporation as if such property were sold to the distributee at its fair market value.

(2) Treatment of liabilities.

Rules similar to the rules of section 336(b) shall apply for purposes of this subsection .

(3) Special rule for certain distributions of partnership or trust interests.

If the property distributed consists of an interest in a partnership or trust, the Secretary may by regulations provide that the amount of the gain recognized under paragraph (1) shall be computed without regard to any loss attributable to property contributed to the partnership or trust for the principal purpose of recognizing such loss on the distribution.

