



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

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[REDACTED]

COR-118352-99

UIL-1001.02-00

[REDACTED]

Dear [REDACTED]

We have received your letter dated November 7, 1999, to the Internal Revenue Service (a copy of which is enclosed), concerning the computation of gain in connection with shares of [REDACTED] stock that you exchanged in [REDACTED] for cash and shares of [REDACTED] stock. We understand that Susan Kassell of this office telephoned you several weeks ago and left you a message explaining about a shareholder's tax liability in a taxable merger. This will provide you with general information about taxable exchanges of stock.

Generally, gross income includes all income from whatever source derived, including (but not limited to) gain derived from dealing in property, which is the excess of the amount realized over the adjusted basis of the property. The character of the gain will depend on the nature of the asset sold. A "capital asset" is property held by the taxpayer, excluding certain types of property not apparently involved here. Stock generally constitutes a capital asset under this broad definition.

There are exceptions to the requirement that a taxpayer must include in income gain derived from dealing in property, where, for example, stock is exchanged for other stock in a tax-free merger. However, the letter of instruction from [REDACTED] attached to your letter indicates that the [REDACTED] merger was a taxable exchange. Therefore, even though you continue to own the [REDACTED] stock, you are required to pay tax on the gain from the [REDACTED] stock. As described above, that gain is measured by the excess of the amount realized (the cash and fair market value of the stock received) over the adjusted basis of the stock.

COR-118352-99

2

We hope that this information is helpful. If we may be of further assistance, please do not hesitate to contact Ms. Kassell at (202) 622-4930.

Sincerely,

Michael D. Finley  
Chief, Branch 3  
(Income Tax & Accounting)

Enclosure (1)