



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

OFFICE OF THE CHIEF COUNSEL

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Dear

This letter responds to your request for information dated September 8, 2011. You requested information concerning the tax consequences generally to stock bank depositors whose deposits are entirely transferred to federal credit unions in which the depositors retain a credit union account in the same amount as that held in the stock bank, but also receive "membership" interests in the credit unions that include "liquidation rights" entitling depositor-members to share in the proceeds of a solvent liquidation of the credit union. Particularly, you have asked whether depositors, upon becoming a member of credit unions, would be required to report income equal to the value of the liquidation rights.

There can be income upon receipt of a right only if the right has value. See Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955) (explaining that gross income includes "undeniable accessions to wealth"); cf. Treas. Reg. § 1.61-2(d) (including as income the fair market value of property received in exchange for services). Several authorities have determined that liquidation rights similar to those typically held by credit union members have nominal value. In Paulsen v. Commissioner, 469 U.S. 131, 140 (1985), the Supreme Court stated that the equity features inherent in "share interests" held by depositors of a mutual savings and loan, including a liquidation right, had an "incremental value [of] . . . practically, zero." As to the liquidation right specifically, the Court reiterated its position in Society for Savings v. Bowers, 349 U.S. 143, 150 (1955): "It stretches the imagination very far to attribute any real value to such a remote contingency, and when coupled with the fact that it represents nothing which the depositor can readily transfer, any theoretical value reduces almost to the vanishing point." Paulsen, 496 U.S. at 139. The Service's position, as expressed in published rulings, likewise supports the notion expressed in Paulsen that the membership interests held by depositors in non-stock savings and loan associations, including liquidation rights, have little value. See, e.g., Rev. Rul. 80-105, 1980-1 C.B. 78 (explaining that equity interest of depositor in mutual savings and loan association is "more nominal than real"); Rev. Rul. 69-6, 1969-1 C.B. 10 (concluding

that the non-depository ownership interest held by depositors of a non-stock savings and loan association has “minimal value”). Rights such as those described in the authorities above generally have no value and will not give rise to income upon receipt.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2011-1, §2.04, 2011-1 I.R.B. 1 (Jan. 3, 2011). If you have any additional questions, please contact _____ at _____.

Sincerely,

Robert A. Martin
Robert A. Martin
Senior Technician Reviewer, Branch 1
(Financial Institutions & Products)