**8590. Does an exchange of corporate stock for corporate stock qualify for nonrecognition treatment?**

Pursuant to IRC Section 1036, common stock in a corporation exchanged for common stock in the same corporation is tax-free. The nonrecognition rules of IRC Section 1036 apply to exchanges of common stock in the same corporation, even though the stocks are of a different class and have different voting, preemptive, or dividend rights.[[1]](#footnote-1) Nonrecognition also applies to an exchange of preferred stock for preferred stock in the same corporation. However, gain or loss may be recognized if cash or other property is also received. This treatment applies both to exchanges between an individual shareholder and the corporation and to exchanges between two shareholders. Such an exchange is treated in substantially the same manner as a “like-kind” exchange (see Q 8575 to Q 8578).

Finally, the exchange of stock in different corporations and exchanges of common stock for preferred stock do *not* qualify for nonrecognition treatment even if the shares of stock are similar in all other aspects.[[2]](#footnote-2)

1. . Rev. Rul. 72-199, 1972-1 CB 228, Treas. Reg. §1.1036-1. [↑](#footnote-ref-1)
2. . IRC Secs. 1036, 1031(a), Treas. Reg. §1.1036-1. [↑](#footnote-ref-2)