**8781. How is a C corporation shareholder taxed upon the sale of the shareholder’s stock in the corporation?**

Generally, a shareholder who sells or exchanges stock for other property realizes a capital gain or loss.[[1]](#footnote-1) Whether such gain or loss is short-term or long-term usually depends on how long the shareholder held the stock before selling (or exchanging) the stock.[[2]](#footnote-2) For an explanation of how the holding period is calculated, see Q 8551; for the treatment of capital gains and losses, including the current tax rates applicable for capital gains, see Q 8544 to Q 8558.

When shares of stock are sold, the amount of gain (or loss) is the difference between the selling price and the shareholder’s tax basis in the shares at the time of sale. If the shares are exchanged for property, or for property and cash, the amount of gain (or loss) is the difference between the fair market value of the property plus the cash received in the exchange and the shareholder’s tax basis.[[3]](#footnote-3)

Despite this, if common stock in a corporation is exchanged for common stock in the same corporation, or if preferred stock is exchanged for preferred stock in the same corporation, gain or loss is generally not recognized unless cash or other property is also received. In this case, the exchange is taxed in substantially the same manner as a “like-kind” exchange.

The exchange of shares of different corporations and exchanges of common for preferred do *not* qualify for the general “like-kind” exchange rules, even if the shares are similar in all respects.[[4]](#footnote-4) The nonrecognition rules of IRC Section 1036 apply to exchanges of common stock for common stock in the same corporation, even though the shares are of a different class and have different voting, preemptive, or dividend rights.[[5]](#footnote-5)

For an explanation of “like-kind” exchanges, see Q 8575. See Q 8782 for considerations that apply in determining a stockholder’s basis in corporate stock.

1. . See IRC Secs. 1221, 1222. [↑](#footnote-ref-1)
2. . See IRC Secs. 1222, 1223. [↑](#footnote-ref-2)
3. . See IRC Sec. 1001. [↑](#footnote-ref-3)
4. . IRC Sec. 1036; Treas. Reg. §1.1036-1. See IRC Sec. 1031(a). [↑](#footnote-ref-4)
5. . Rev. Rul. 72-199, 1972-1 CB 228. See Treas. Reg. §1.1036-1. [↑](#footnote-ref-5)