

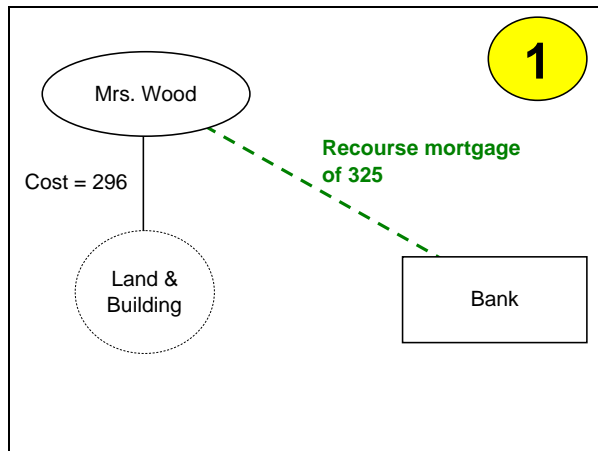
**Woodsam Assoc., Inc. v Commissioner**  
**198 F. 2d 357 (2nd Cir. 1952)**

(All amounts in thousands)

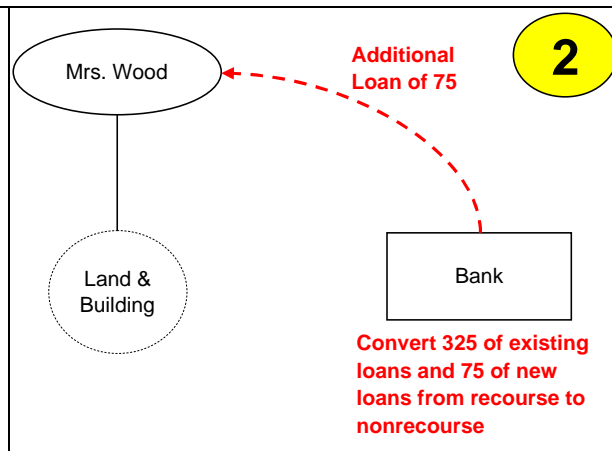
**No Gain Recognition on  
 Debt Conversion from  
 Recourse to Non-Recourse**

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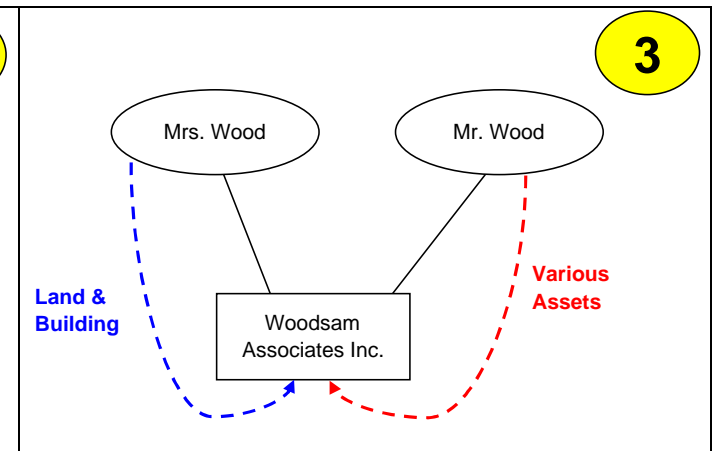
**Initial Structure (1926)**



**Additional Borrowing &  
 Conversion to Nonrecourse (1931)**



**351 Contribution (1934)**



Mrs. Wood tried to argue that the conversion of the debt from recourse to nonrecourse (box 2 above), should have been a taxable transaction with a step up in basis to the value of the debt.

The Second Circuit held that gain is not recognized, and basis is not increased "when, subsequent to the acquisition of the property, the owner receives a loan in an amount greater than his adjusted basis which is secured by a [nonrecourse] mortgage."

**Foreclosure (1943)**

