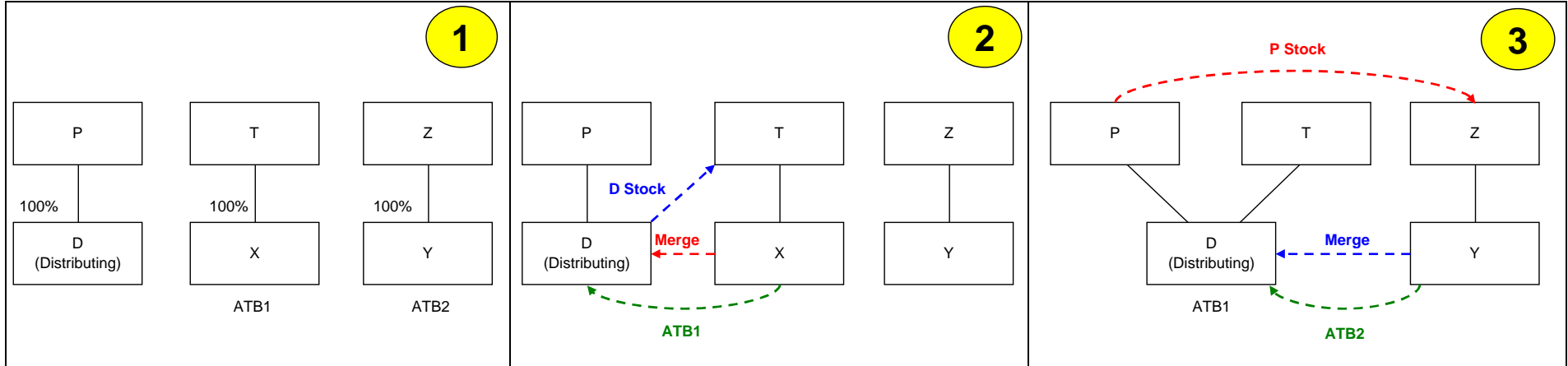


**Tax Free Acquisitions  
of Businesses**

**Initial Structure**

**Merger of X**

**Triangular Merger of Y**



For more than five years, unrelated T and Z have owned all of the stock of X and Y, respectively, and X and Y have engaged in the active conduct of ATB1 and ATB2, respectively. Unrelated P owns all of the stock of D. In year 6, D acquires all of X's assets (including ATB1) from X solely in exchange for D stock in a reorganization described in section 368(a)(1)(A), and all of Y's assets (including ATB2) from Y solely in exchange for P stock in a reorganization described in section 368(a)(1)(A) by reason of section 368(a)(2)(D). No gain or loss is recognized on either acquisition. In a separate transaction, D transfers ATB2 to new subsidiary C in exchange for all of the C stock in a transaction that satisfies the requirements of section 351 and in which no gain or loss is recognized. If D were to distribute the C stock in a separate transaction, D and C can rely on ATB1 and ATB2, respectively, to satisfy the requirements of section 355(b). ATB1 and ATB2 were acquired in transactions in which no gain or loss was recognized, and were not acquired in exchange for assets of the DSAG. The result would be the same if D acquired all of the assets of T (including the X stock) and Z (including the Y stock) in the reorganizations instead of acquiring the assets of X and Y, and then transferred the Y stock to C.

**351 Exchange**

**Ending Point**

