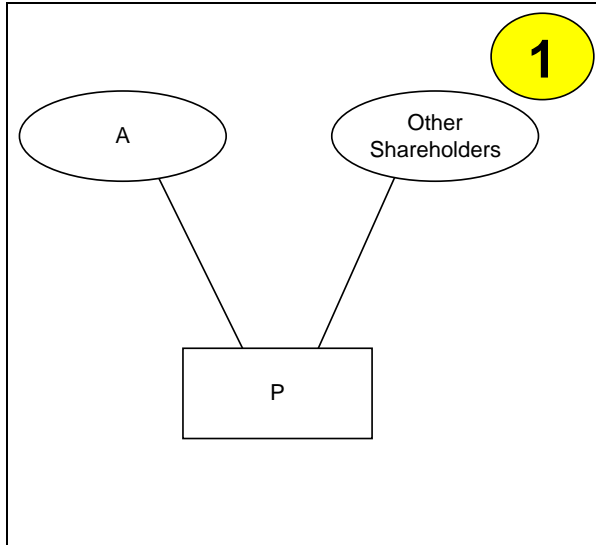
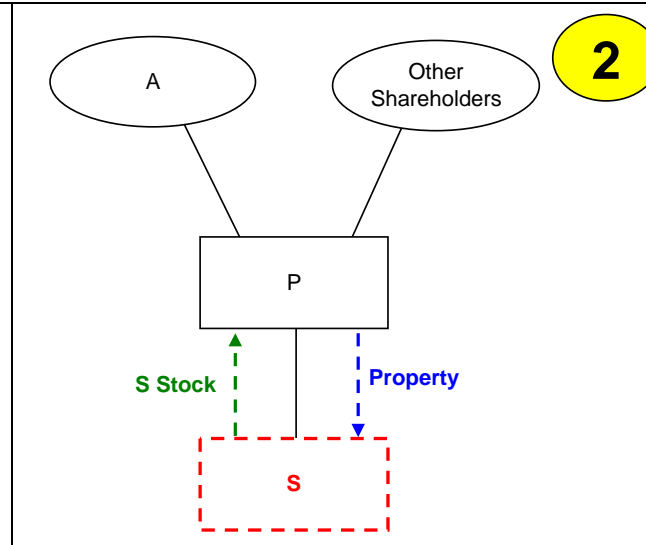


**351 Exchange & Distribution
to Shareholder**

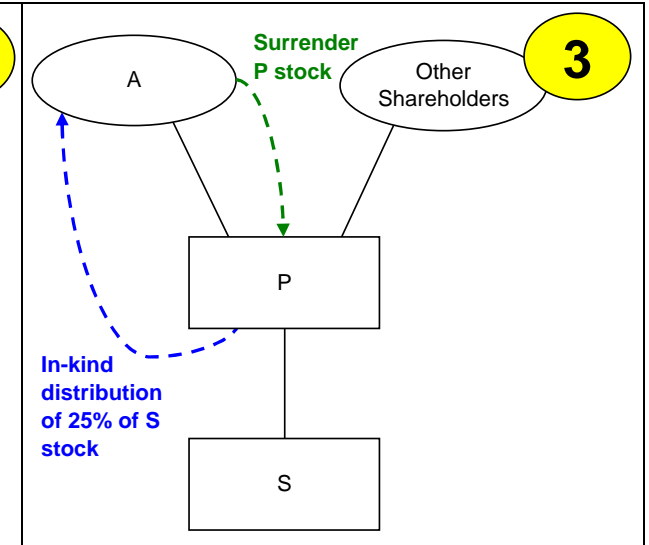
Initial Structure



351 Exchange



Distribution / Redemption



P corporation formed a subsidiary, S corporation, and transferred property to S solely in exchange for all of S's stock. Immediately thereafter, P distributed 25% of the stock of S to A, a shareholder of P, in complete redemption of A's stock of P. P and A then continued to hold all of S's stock.

Section 351(a) provides, in general, for the nonrecognition of gain or loss upon the transfer by one or more persons of property to a corporation solely in exchange for stock or securities in such corporation if, immediately after the exchange, such person or persons are in control of the corporation to which the property was transferred. Section 368(c) provides that the term "control" means the ownership of stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of all other classes of stock of the corporation.

Section 351(c) provides the special rule that in determining control, for purposes of section 351, the fact that any corporate transferor distributes part or all of the stock which it receives in the exchange to its shareholders will not be taken into account.

At the time of this ruling, section 311(b) did not provide for gain in this type of distribution (the General Utilities Doctrine). With the repeal of the General Utilities doctrine, however, the distribution by P would trigger taxable gain to P (on the 25% distributed), unless section 355 applies to the distribution. P's transfer of property to S, however, qualifies under section 351 despite the fact that P transferred 25% of the S stock to A immediately after the exchange.

Ending Point

