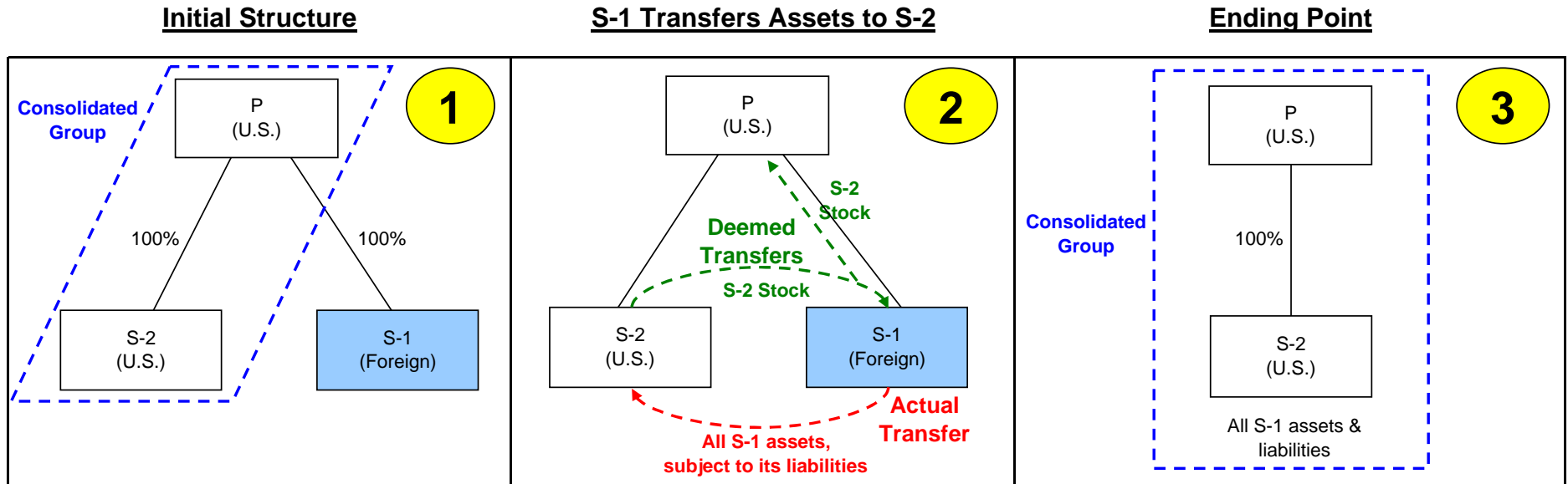


Inbound D Reorganization



The facts in Revenue Ruling 75-383 are identical to those in Revenue Ruling 74-598. Rev. Rul. 74-598 held that the transfer of S-1's assets to S-2 was not a section 332 tax free liquidation. However, Rev. Rul. 74-598 did not address whether the transaction qualified as a D reorganization.

Rev. Rul. 75-383 holds that the transaction qualified as an "inbound" section 368(a)(1)(D) reorganization, provided that 1) the transaction meets the business purpose and continuity of interest requirements, and 2) an advance ruling under section 367 is obtained. Note that an advance ruling under section 367 is no longer necessary. However, P would be required to include in its income the "all earnings and profits amount" of S-1. See Reg. 1.367(b)-3.

Interestingly, the ruling does not provide that the issuance of shares by S-2 would be a "meaningless gesture". Rather, the ruling holds that "S-1 is treated under section 361(a) as having transferred its assets to S-2 in exchange for stock of S-2", and that "P is treated as having received stock of S-2 from S-1".