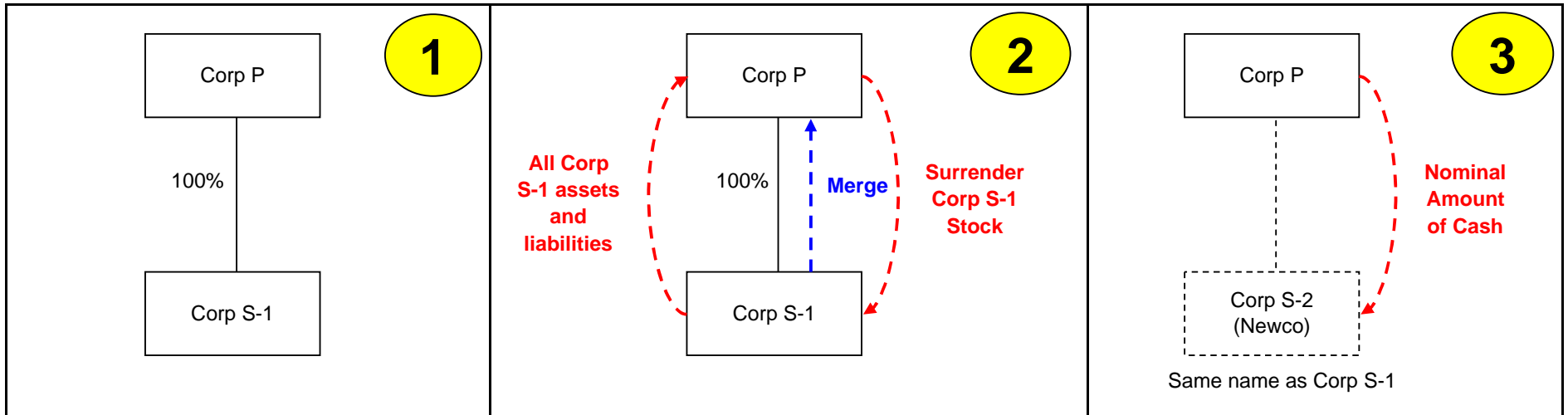


**Section 332 Liquidation:
Nominal Assets Remaining**

Initial Structure

Merger/Liquidation

Contribution into Newco



Corp P owned all the stock of a subsidiary corporation, S-1. Pursuant to a plan of complete liquidation, S-1 merged with and into P under applicable state merger laws. Immediately thereafter, P, solely to protect S-1's name, transferred a nominal amount of cash of S-1 to S-2, a newly formed subsidiary with the same name as S-1. No other assets were transferred to S-2, S-2 will conduct no business, and P does not intend to sell or otherwise dispose of the stock of S-2.

Section 332(a) provides that no gain or loss is recognized on the receipt by a corporation of property distributed in complete liquidation of another corporation. Reg. 1.332-2(c) provides that the retention of a nominal amount of assets for the sole purpose of preserving the liquidating corporation's legal existence will not disqualify the transaction as a distribution in a complete liquidation.

Rev. Rul. 76-525 holds that the retention by a subsidiary corporation of any property, no matter how small in amount, for the purpose of continuing the operation of its present business or for the purpose of engaging in a new business, will prevent the distribution from qualifying as a section 332 distribution.

In the present situation, only a nominal amount of cash was transferred to S-2 for the sole purpose of protecting S-1's name, and not to continue S-1's manufacturing business or to enable S-1 to enter a new business. As a result, the transaction will qualify as a complete liquidation of S-1 within the meaning of section 332.

Ending Point

