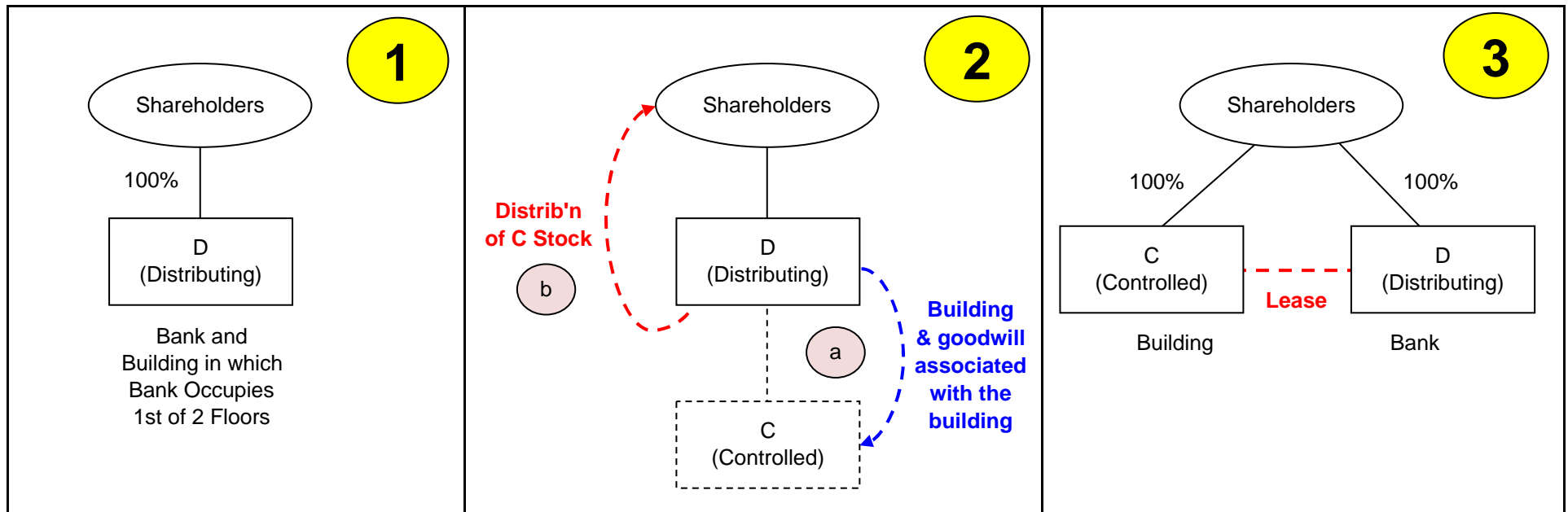


**Spin-Off With Occupied
Real Estate**

Initial Structure

Contribution / Spin-Off

Ending Point



For more than five years, D, a bank, has owned a two-story building, the ground floor and one half of the second floor of which D has occupied while engaged in the active conduct of its banking business. The other half of the second floor has been rented as storage space to a neighboring retail merchant. D transfers the building and the goodwill associated with the building to new subsidiary C and distributes the C stock to the D shareholders. After the distribution, D leases from C the space in the building that it formerly occupied. Under the lease, D will repair and maintain its portion of the building and pay property taxes and insurance. C does not satisfy the requirements of section 355(b) because it is not engaged in the active conduct of a trade or business immediately after the distribution. This example does not address the question of whether the activities of D with respect to the building prior to the separation would constitute the active conduct of a trade or business.