For more than five years, D owned land on which it has engaged in the active conduct of the ranching business. Oil has been discovered in the area, and it is apparent that oil may be found under the land on which the ranching business is conducted. D has engaged in no significant activities in connection with its mineral rights. D transfers its mineral rights to new subsidiary C and distributes the C stock to the D shareholders. C will actively pursue the development of the oil producing potential of the property. C does not satisfy the requirements of section 355(b) after the distribution because D was not engaged in significant exploitation activities with respect to the mineral rights throughout the pre-distribution period.

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