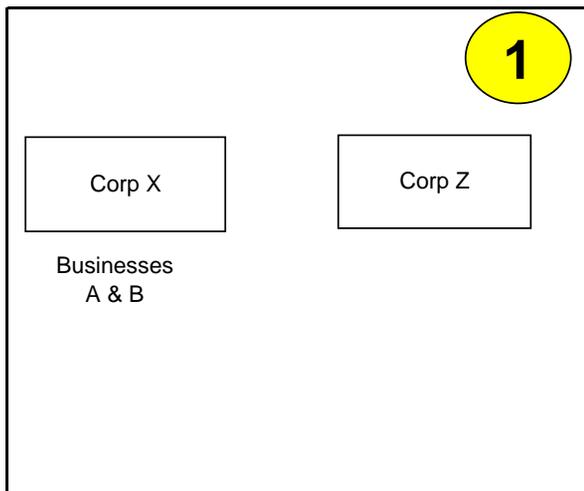
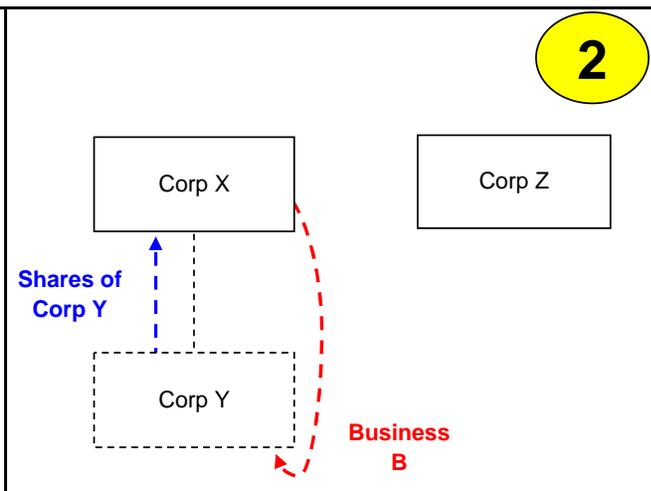


Contribution & Stock Exchange Not a 351 Exchange Nor a B Reorganization

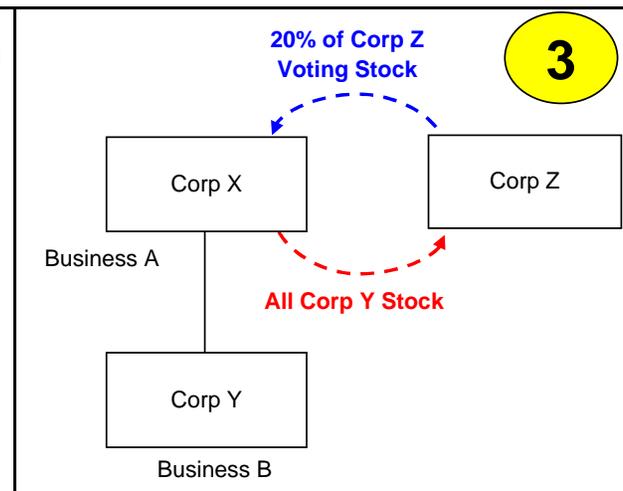
Initial Structure



Contribution



Stock-for-Stock Exchange



Corp X was engaged in two separate businesses. In 1951 Corp X organized a new corporation, Corp Y, and transferred to it all the assets pertaining to one of such businesses (subject to applicable liabilities) in exchange for all of the stock of Y. X thereupon, and as a part of a prearranged plan, transferred all of the stock of Y to Corp Z, an unrelated corporation that has been engaged in business for many years, in exchange for which Z issued to X 20 percent of Z's voting stock. The two steps of the transaction described above were part of a prearranged integrated plan, and may not be considered independently of each other for Federal income tax purposes.

Since as a result of the whole transaction Corp X was not in control of Corp Y after transferring a part of its assets to that corporation, the transaction did not constitute a reorganization as defined in section the predecessor to section 368(a)(1)(D), nor did it constitute a tax-free transfer under the predecessor to section 351. Similarly, the predecessor to section 368(a)(1)(B) was not applicable, for in net effect X transferred part of its assets to Z in exchange for a part of the Z stock, rather than all the stock of a previously existing corporation. It is immaterial whether the transaction is treated as consisting of two taxable steps (a taxable exchange by X of part of its assets for the stock of Y followed by a taxable exchange by X of Y stock for Z stock) or whether it is treated as a single taxable transaction (in substance a taxable transfer by X of part of its assets to Z in exchange for 20 percent of Z's stock, followed by a nontaxable transfer by Z of the newly acquired assets to Y in exchange for Y's stock). See also Rev. Rul. 68-349, Rev. Rul. 68-357, Rev. Rul. 76-123, and Rev. Rul. 84-44.

Ending Point

