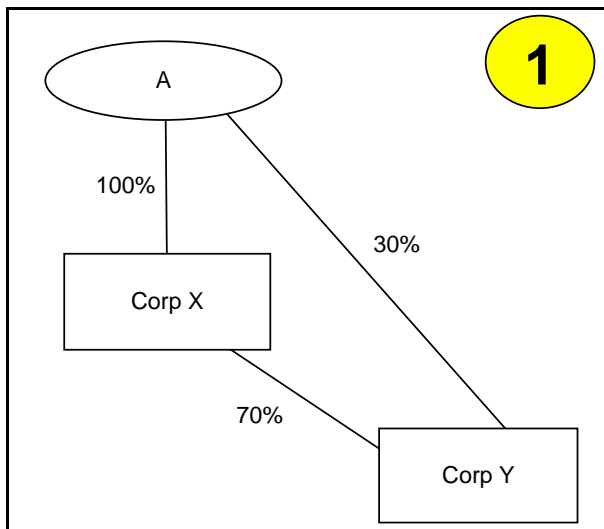
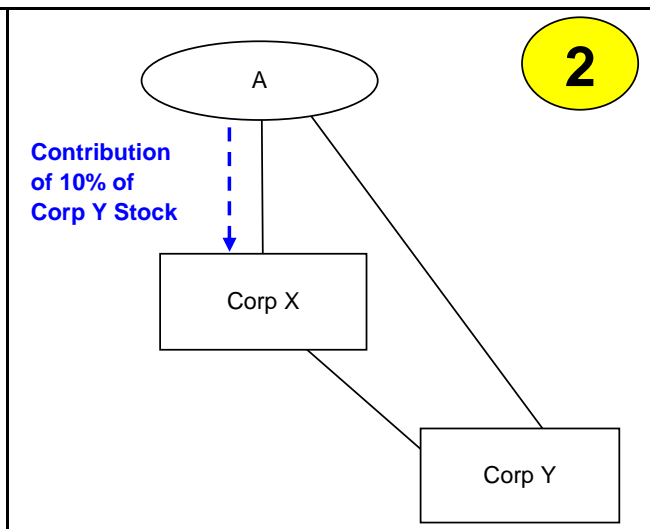


**No "Control" for Spin-Off  
Due to Transitory Ownership**

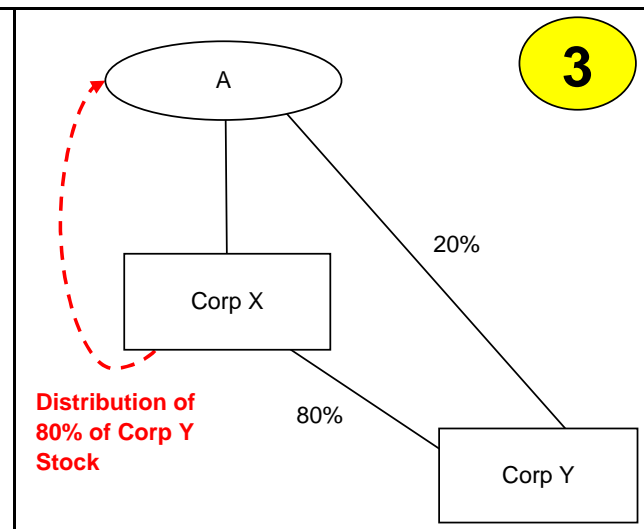
**Initial Structure**



**Contribution**



**Purported Spin-Off**



A owned all of the stock of X which owned 70 shares of the stock of Y. A also owned the remaining 30 shares of Y stock directly. A contributed 10 shares of his Y stock to X. Immediately thereafter, X distributed all 80 shares of Y stock now held by it to A.

The ruling held that the distribution by X does not qualify as a nontaxable distribution under the provisions of section 355, because X did not have "control" of Y within the meaning of section 368(c) immediately before the distribution except in a transitory and illusory sense.

Section 355 cannot be made to apply to a transaction in which an immediately preceding contribution to capital by the distributor corporation's shareholder is made solely to attempt to qualify the transaction as a nontaxable distribution under that section.

**Ending Point**

