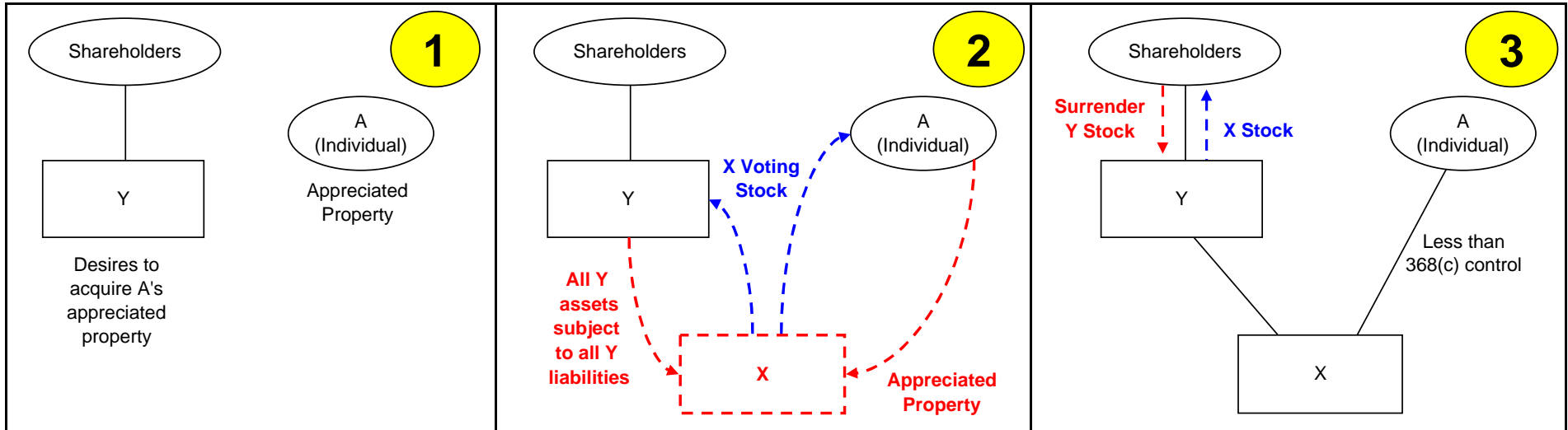


**Failed 351 Exchange -  
Lack of Control**

**Initial Structure**

**Formation of X**

**Liquidation of Y**



The transfer by A of appreciated property to X and the transfer by Y of all of its assets subject to its liabilities to X were part of one plan. After the transfer, A and the shareholders of Y were in control of X within the meaning of section 368(c) and 351(c). However, corporation X was organized for the purpose of enabling A to transfer the appreciated assets without the recognition of gain and corporation Y ceased to exist. Therefore, the organization of X is considered to be merely a continuation of corporation Y. Consequently, the transfer by A to the continuity entity does not come within the provisions of section 351 inasmuch as A was not in control of such entity.

Accordingly, gain will be recognized to A. The transfer by Y of all of its properties to X in exchange for voting stock of X and the assumption of Y's liabilities is a reorganization under section 368(a)(1)(F).

**Ending Point**

