Corporation P has a wholly owned subsidiary, S1, which has a wholly owned subsidiary, S2. All of the corporations are domestic corporations. P transferred machinery used in its trade or business to S1 solely in exchange for additional shares of S1 stock. As part of the same plan, S1 transferred the same machinery to S2 solely in exchange for additional shares of S2 stock. S2 retained the machinery for use in its business and P and S1 retained the stock received by them in the exchanges.

Section 351(a) provides that no gain or loss will be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation. Section 368(c) defines control to mean the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation. Under the circumstances described above, the transfers are viewed separately for purposes of section 351. Since each transfer satisfies the requirements of section 351, no gain or loss is recognized by the transferors.

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