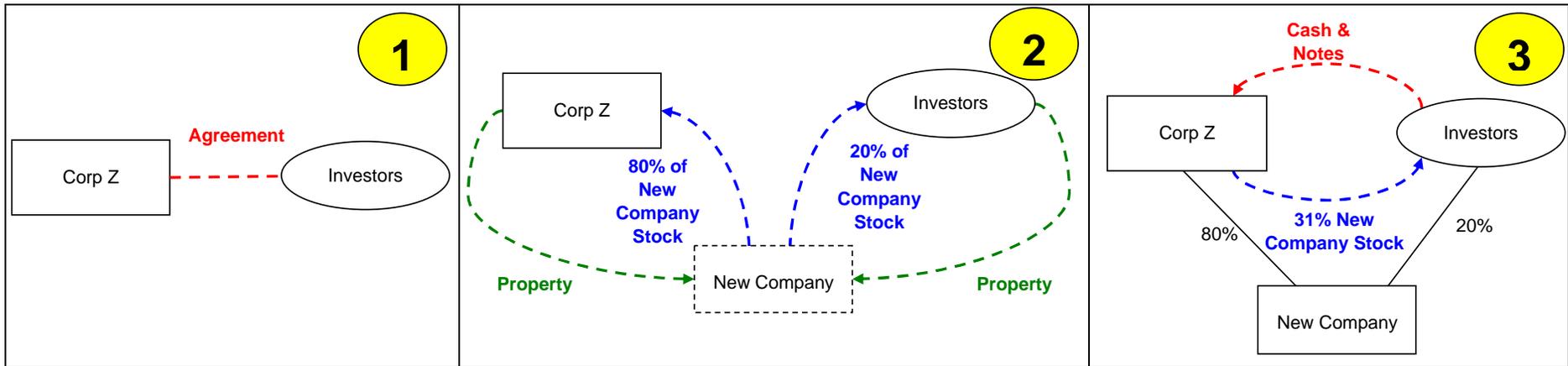


Initial Structure

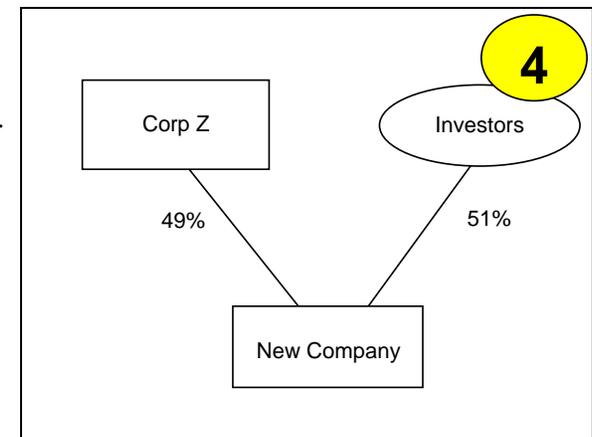
Contributions

Sale of Stock



Corporation Z and a group of investors, pursuant to a binding agreement between them, transferred property to a newly organized corporation, Newco, in exchange for all of Newco's stock (a single class of voting common stock). Z and the investors received 80% and 20%, respectively, of Newco's stock. Pursuant to the agreement Z sold an amount of its Newco stock for its fair market value to the investors to bring its ownership down to 49%. Newco would not have been formed if the investors had not agreed to transfer property to it and their agreement to do so was conditioned on the sale by Z to them of part of Z's Newco stock.

Ending Point



Since the sales of Newco stock by Z to the investors, and of Newco stock by X to the investors, were integral parts of the incorporations and pursuant to binding agreements entered into prior to the exchanges, the control requirement of section 351(a) is determined after the respective sales. See *Hazeltine Corp. v. Commissioner*, 89 F.2d 513 (3rd Cir. 1937), *Intermountain Lumber Co. v. Commissioner*, 65 T.C. 1025 (1976) and Rev. Rul. 70-522.

In Situation (1), after the sales were completed, 49% of the Newco stock was owned by Z and 51% of the stock was owned by the investors. Therefore, the persons transferring property to Newco in exchange for Newco stock owned 100% of the Newco stock "immediately after the exchange" within the meaning of section 351(a). The fact that there was a shift in ownership of stock among the transferors after their exchanges with Newco does not affect the application of section 351(a). See example (1) under Treas. Reg. 1.351-1(b) in which transfers of property to a new corporation qualify under section 351 even though a shift in the ownership of stock among the transferors is considered to have occurred subsequent to the transfers.