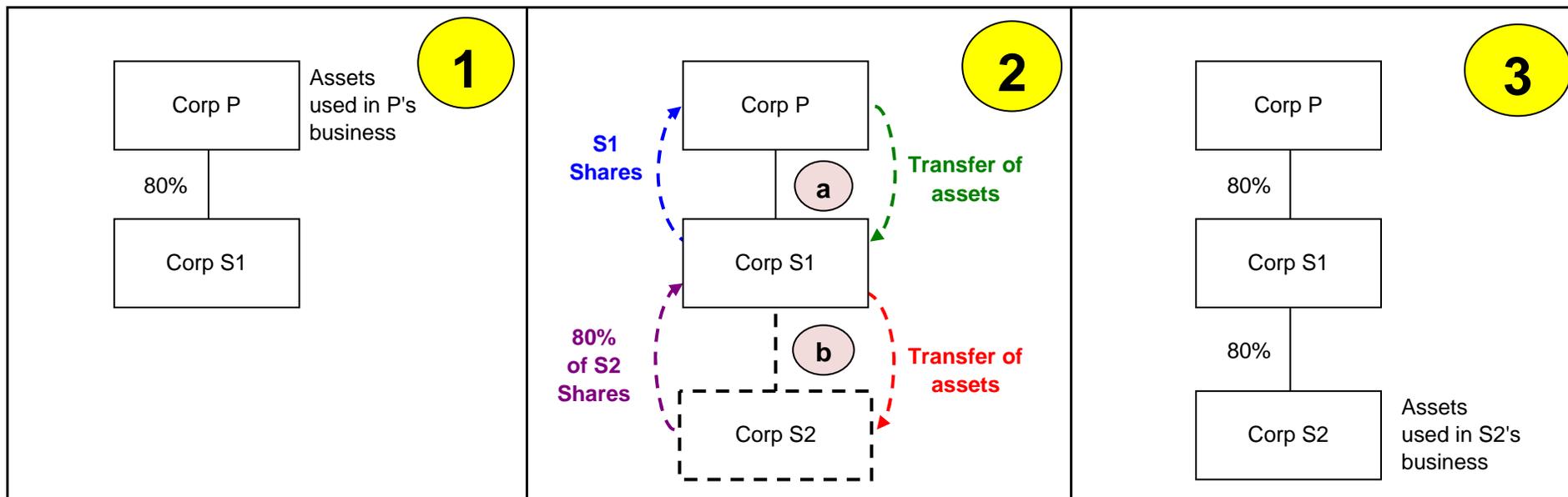


**Successive 351 Transfers
(80% Ownership)**

Initial Structure

Successive 80% Drop-downs

Ending Point



P corporation has an 80 percent owned subsidiary, S-1. An unrelated corporation owns the other 20 percent. Both corporations are operating corporations. P transferred assets used in its business to S-1 solely in exchange for additional shares of S-1 stock. No liabilities of P were assumed by S-1 and the assets transferred were not subject to liabilities. As part of the same plan, S-1 transferred the same assets to S-2, a newly formed corporation in which S-1 will be an 80 percent shareholder. An unrelated corporation will own the other 20 percent interest in S-2. S-2 retained the assets received from S-1 for use in its business and P and S-1 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. See also Rev. Rul. 77-449.