X corporation owned a 50 percent interest in the capital and profits of XZ partnership. Pursuant to a reorganization under section 368(a)(1), X transferred its assets, including the 50 percent interest in XZ, to Y corporation solely for Y stock in a transaction qualifying under section 361(a). The liabilities of X assumed by Y in the reorganization did not exceed X's basis in the assets transferred. The business of XZ was continued in a partnership composed of Y and Z.

A section 361 exchange of a partnership interest made pursuant to a plan of reorganization qualifying under section 368(a)(1)(F) is not an exchange for purposes of section 708. In a section 368(a)(1)(F) reorganization, there is virtually no change in the identity of the shareholders and their interest or in the assets involved. See Rev. Rul. 66-284. The provisions governing corporate reorganizations recognize this unique feature of reorganizations qualifying under section 368(a)(1)(F).

The transfer by a corporation of its interest in the capital and profits of a partnership to another corporation in a transaction qualifying under sections 361(a) and 368(a)(1) is an exchange for purposes of section 708(b)(1)(B), unless the reorganization qualifies under section 368(a)(1)(F). Confusingly, the ruling does not state whether the section 368(a)(1) reorganization qualifies as an "F" reorganization. The ruling appears to conclude that the reorganization does not qualify as an "F" reorganization because its states that "X's transfer to Y of its 50 percent interest in the XZ partnership causes a termination of that partnership under section 708(b)(1)(B)." Regardless of the type of reorganization, since the transfer qualifies under section 361(a), no gain or loss is recognized to the transferor corporation upon the transfer of its assets, including its partnership interest, to the transferee corporation solely for stock of the transferee corporation.

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