Revenue Ruling 90-95

Cash Merger of Transitory Subsidiary Treated as QSP

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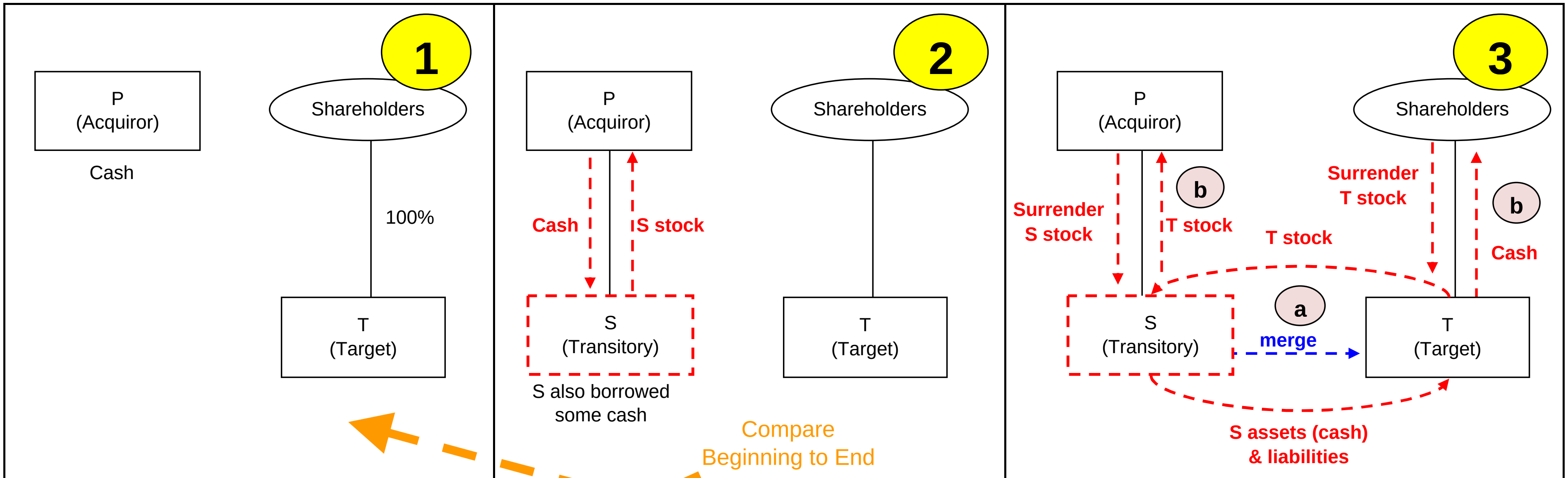
Initial Structure | **Subsidiary Formation and Funding** | **Cash Merger**

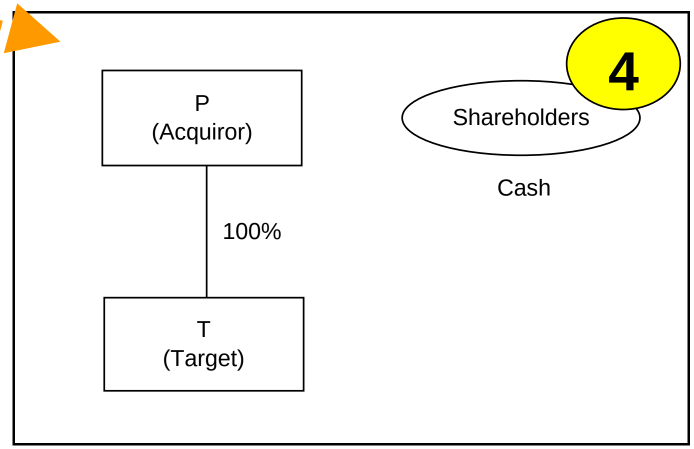


S was formed for the sole purpose of acquiring the stock of T. A subsidiary used to acquire target stock in a reverse subsidiary cash merger is ordinarily disregarded if it was formed solely for the purpose of acquiring the stock and did not conduct any activities other than those required for the merger.

In Kimbell-Diamond, the court held that the purchase of stock of a target corporation for the purpose of obtaining its assets through a prompt liquidation should be treated by the purchaser as one transaction, namely, a purchase of the target's assets with the purchaser receiving a cost basis in the assets. Old section 334(b)(2) was added in 1954 to codify the princples of Kimbell-Diamond.

In 1982 Congress repealed old section 334(b)(2) and enacted section 338. Section 338 was intended to replace the Kimbell-Diamond doctrine. The ruling holds that the transactions above are treated as a qualified stock purchase (QSP) of T stock by P.

Ending Point



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