

**Reg. 1.355-2(c)(2)  
Example 1**

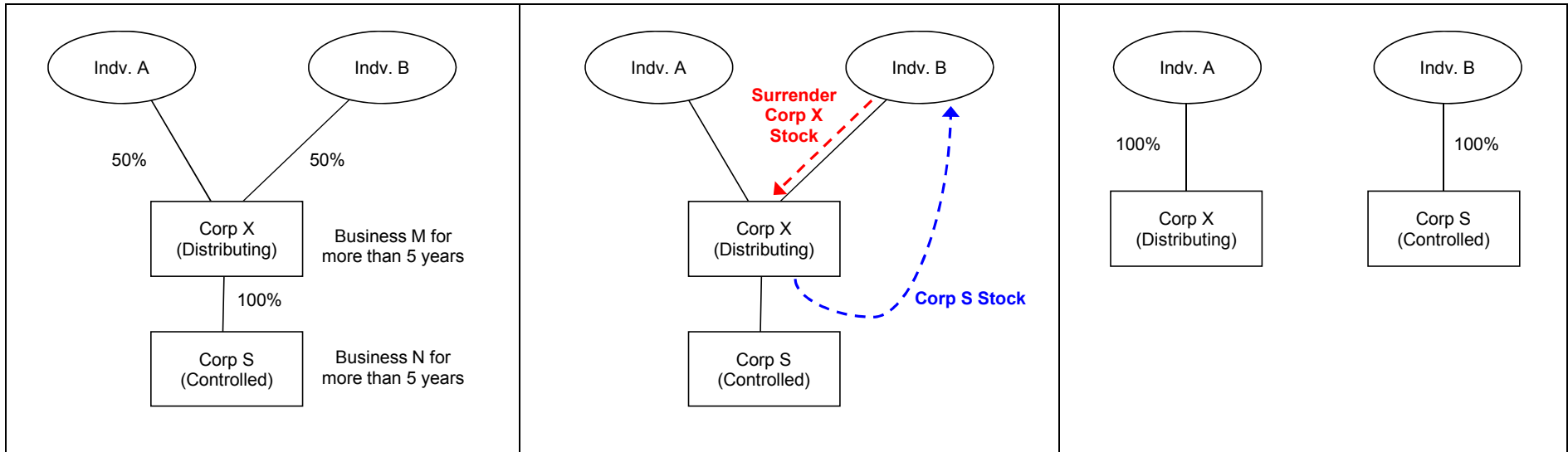
**§355 Spin-Off: Continuity of Interest**

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**Initial Structure**

**Spin-Off**

**Ending Point**



For more than five years, Corp X has been engaged directly in one business, and indirectly in a different business through its wholly owned subsidiary, Corp S. The businesses are equal in value. At all times, the outstanding stock of Corp X has been owned equally by unrelated individuals A and B. For valid business reasons, A and B cause Corp X to distribute all of the stock of Corp S to B in exchange for all of B's stock in Corp X. After the transaction, A owns all the stock of Corp X and B owns all the stock of Corp S.

The continuity of interest requirement is met because one or more persons who were the owners of Corp X prior to the distribution (A and B) own, in the aggregate, an amount of stock establishing a continuity of interest in each of Corps X and S after the distribution.

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