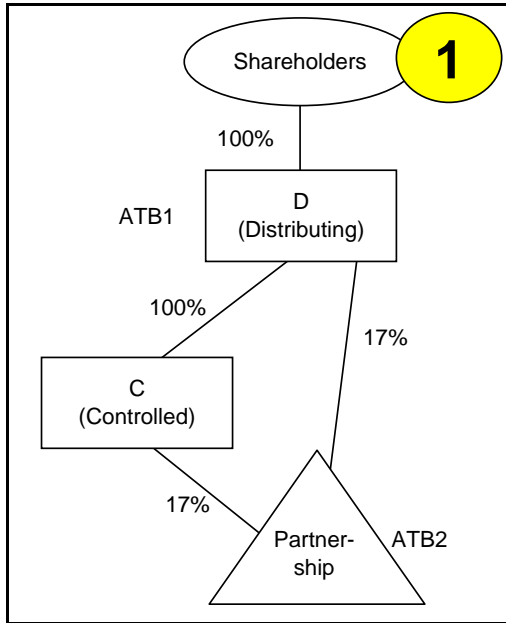
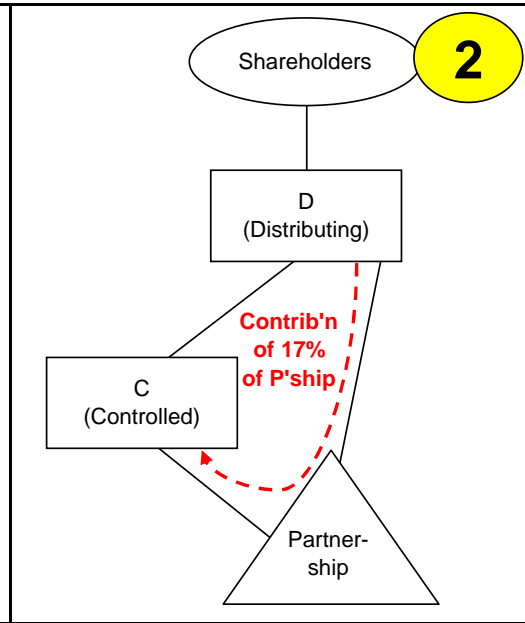


Spin-Off - Jointly Owned Partnership

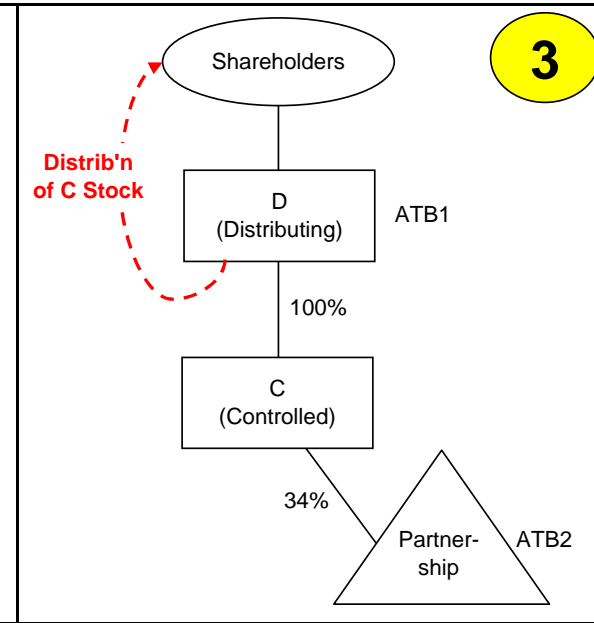
Initial Structure



Contribution



Spin-Off



For more than five years, D has owned all of the stock of C, and D and C each have owned a 17-percent interest in Partnership. Throughout this period, D and Partnership have engaged in the active conduct of ATB1 and ATB2, respectively. In year 6, D transfers its 17-percent interest in Partnership to C and distributes all of the C stock to the D shareholders. Because D owns section 1504(a)(2) stock of C, C is a DSAG member. D and C are treated as one corporation for purposes of determining whether D and C are engaged in the active conduct of a trade or business. Accordingly, throughout the pre-distribution period, D and C are each treated as owning a 34-percent interest in Partnership. As such, both D and C are treated as engaged in the active conduct of both ATB1 and ATB2 throughout the pre-distribution period. The transfer of the Partnership interest is disregarded because it is between SAG members. After the distribution, C owns 34 percent of Partnership and is therefore engaged in the active conduct of ATB2. Therefore, D and C both satisfy the requirements of section 355(b).

Ending Point

