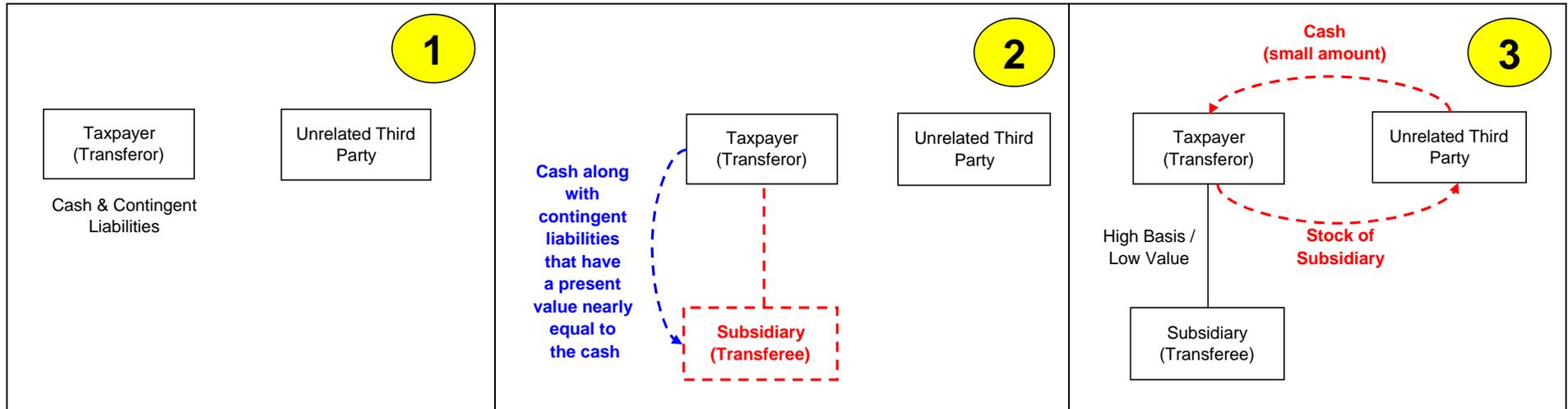


Initial Structure

Subsidiary Formation

Sale of Subsidiary at a Loss



These transactions take several forms, but all cases involve the transfer of a high basis asset (i.e., an asset with a basis that approximates its fair market value, such as cash) to a corporation purportedly in exchange for stock of the Transferee corporation, and the Transferee corporation's assumption of a liability (such as a liability for deferred compensation or other deferred employee benefits or an obligation for environmental remediation) that the Transferor has not yet taken into account for federal income tax purposes. The Transferor typically remains liable on the underlying obligation. The basis and fair market value of the transferred asset are generally only marginally greater than the present value of the assumed liability. Therefore, the value of the stock of the Transferee received by the Transferor is minimal relative to the basis and fair market value of the asset transferred to the Transferee.

The transaction is purported to qualify as an exchange under section 351, with the intent that the basis of the stock that the Transferor receives from the Transferee will be equal to the basis of the transferred asset, unreduced by the liability assumed by the Transferee. The Transferor typically sells the stock of the Transferee for its fair market value within a relatively short period of time after the purported section 351 exchange and claims a tax loss in an amount approximating the present value of the liability assumed by the Transferee.

For transfers after October 18, 1999, the Service will assert that such losses are disallowed because the transferor's basis in the stock received is reduced under section 358(h) (reducing stock basis by the amount of certain liabilities). For transfers on or before October 18, 1999, as well as for transfers after October 18, 1999, that are not subject to §358(h), the Service will disallow such losses for one or more reasons. Transactions that are the same as or substantially similar to those described in this Notice are "listed transactions."

Ending Point

