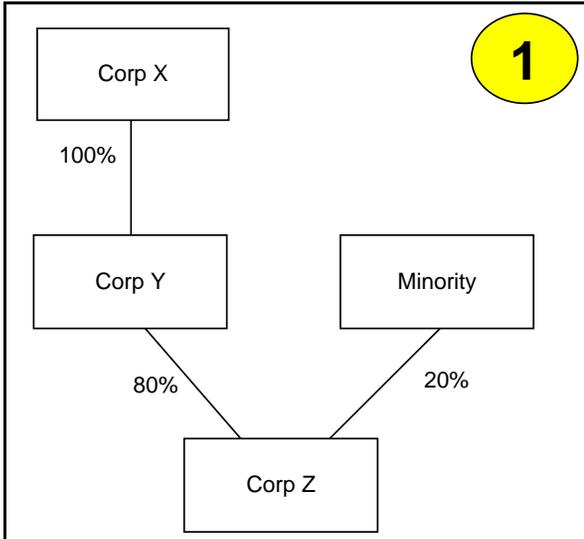
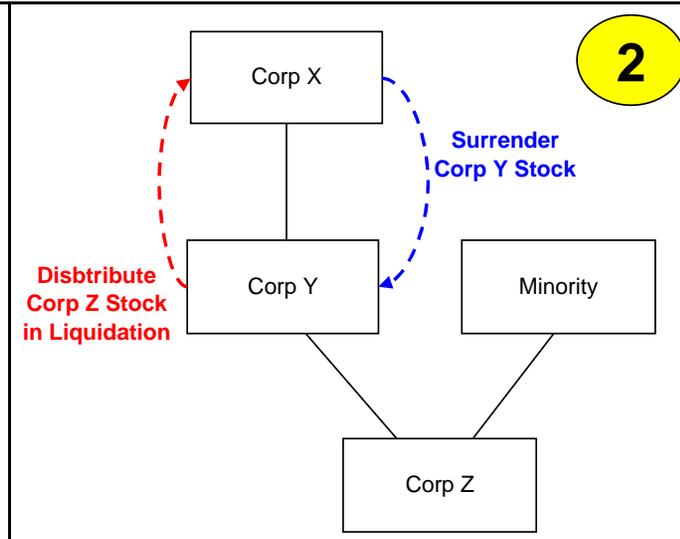


**Liquidation & Purported  
B Reorganization**

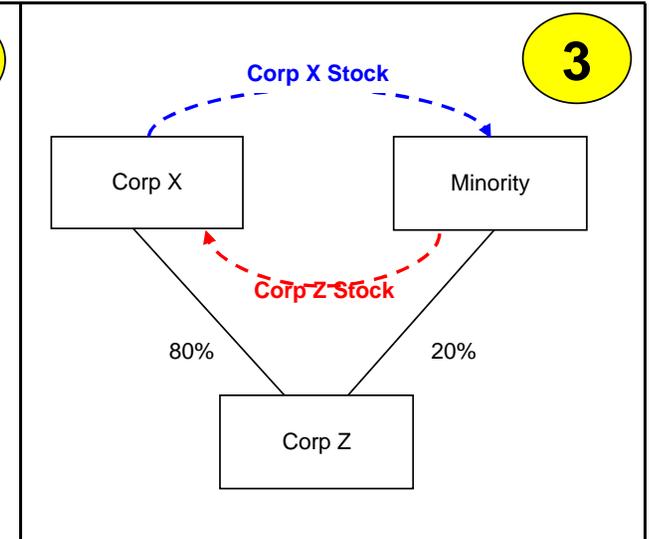
Initial Structure



Liquidation



Purported B Reorganization



Corp X owned all of Corp Y. In turn, Y owned in excess of 80% of Corp Z. X desired to own directly 100% of Z. As part of a plan, X caused Y to liquidate under section 332 and immediately thereafter, X acquired the remaining Z stock held by minority interests in exchange solely for X voting common stock.

Under section 368(a)(1)(B), the term "reorganization" includes the acquisition by one corporation, in exchange solely for all or a part of its voting stock (or of its parent's voting stock), of stock of a target corporation if, immediately after the acquisition, the acquiring corporation has control of the target.

An exchange under section 368(a)(1)(B) must be solely for voting stock of the acquiring corporation or for voting stock of a corporation in control of the acquiring corporation. In the present plan, part of the stock of Z (included in the assets of Y) was received by X in full payment in exchange not for its own stock but for the stock of Y. Only the minority stock interest of Z was acquired by X solely in exchange for voting stock of X. Since this was a single unified transaction it cannot be said that X acquired the stock of Z solely for its own voting stock or for the voting stock of a corporation in control of X. Accordingly, the transaction did not qualify as a reorganization under section 368(a)(1)(B) to the minority shareholders of Z.

In Treasury Decision 8885, it was stated that the IRS and Treasury Department may reconsider Rev. Rul. 69-294.

Ending Point

