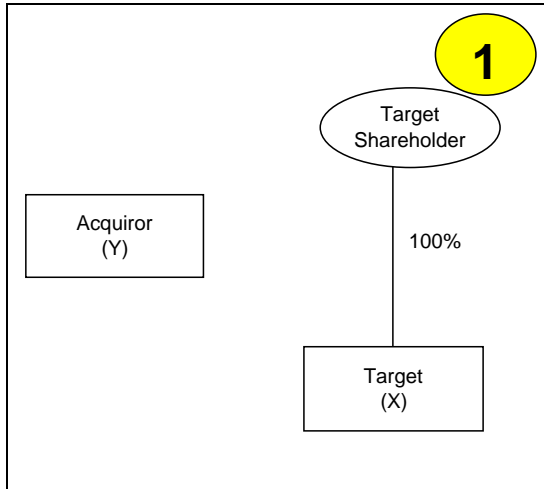
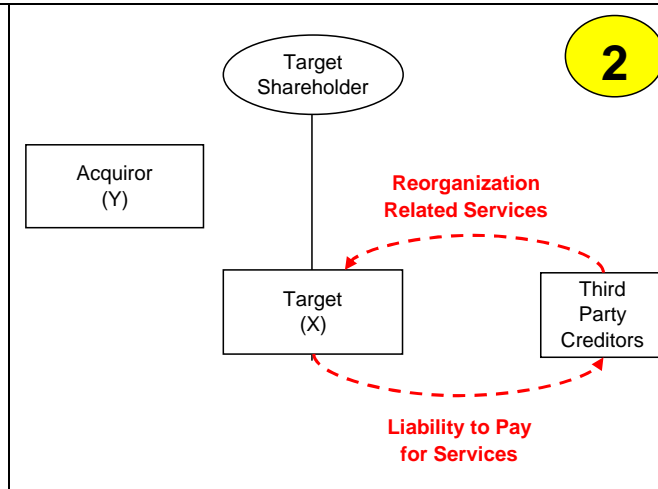


**Acquiror's Payment of Reorganization Expenses in a B or C Reorganization**

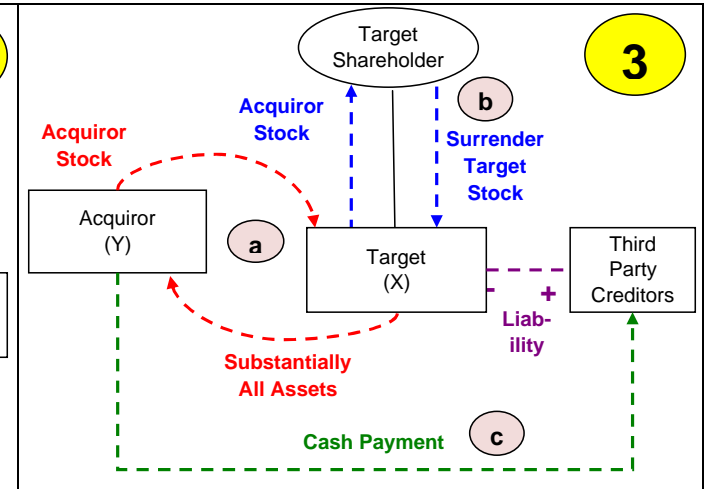
**Initial Structure**



**Incurrence of Target Reorganization Expenses**



**Asset Transfers, Target Dissolution & Creditor Payments**



Pursuant to a plan of reorganization, Target transfers substantially all of its properties to Acquiror in exchange for Acquiror voting stock, followed by the distribution of Acquiror stock to Target shareholders in the dissolution of Target. As part of the plan Acquiror agrees to pay certain reorganization expenses that are solely and directly related to the reorganization.

To qualify as a section 368(a)(1)(C) reorganization, the consideration transferred by Acquiror must consist solely of all or a part of its voting stock (or voting stock of a corporation which is in control of it) [unless the boot relaxation rule applies]. The Supreme Court stated in *Helvering v. Southwest Consolidated Corp.*, 315 U.S. 194 (1942) that " 'Solely' leaves no leeway. Voting stock plus some other consideration does not meet the statutory requirement." However, several subsequent court decisions have allowed payments by the acquiring corporation of expenses arising in a reorganization to not be treated as additional consideration.

Although Target and its shareholders are relieved of the reorganization expenses otherwise attributable to them, nevertheless, they will be receiving solely voting stock of Acquiror. They will receive no other consideration. Accordingly, the ruling holds that the payment by Acquiror of the reorganization expenses will not prevent the plan from qualifying as a C reorganization. The principles of this revenue ruling are equally applicable to reorganization expenses paid by an acquiring corporation in a B reorganization.

Acquiror's payment of Target's [or Target Shareholders'] expenses that are not directly related to the reorganization, such as investment or estate planning fees, and fees incurred by an individual shareholder for legal, accounting or investment advice, will violate the solely for voting stock requirement of section 368(a)(1)(B) or (C).

**Ending Point**

