

**Revenue Ruling 81-247,  
Situation 1**

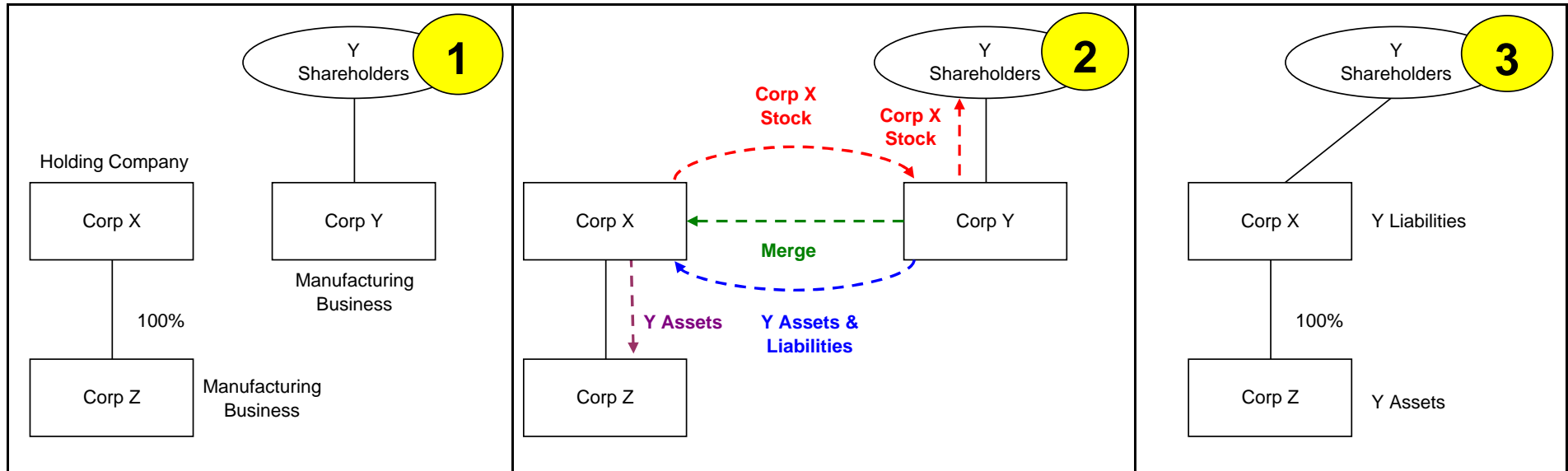
**COBE - Merger With a  
Drop of All Assets**

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**Initial Structure**

**Merger With a Drop**

**Ending Point**



In a transaction meant to qualify as a tax free reorganization under sections 368(a)(1)(A) and (a)(2)(C), corporation X, a holding company, acquired, under the applicable merger laws of State M, a significant portion of the historic business assets of corporation Y, a manufacturing business. Immediately thereafter, X transferred all assets received from Y to corporation Z, its wholly-owned subsidiary engaged in a manufacturing business. Z then used the assets in its manufacturing business.

The application of the continuity of business enterprise rules of Reg. 1.368-1(d) will not prevent the transaction between X and Y, from qualifying as a tax free reorganization under sections 368(a)(1)(A) and (a)(2)(C), because the significant portion of Y's historical business assets received by X remained with X or corporations directly controlled by X. Therefore, the merger of Y into X, followed by the transfer, is a statutory merger within the meaning of sections 368(a)(1)(A) and 368(a)(2)(C). The above holding regarding would also apply in a situation that meets the qualifications of an asset acquisition under section 368(a)(1)(C) and (a)(2)(C) or a stock acquisition within the meaning of section 368(a)(1)(B) and (a)(2)(C).