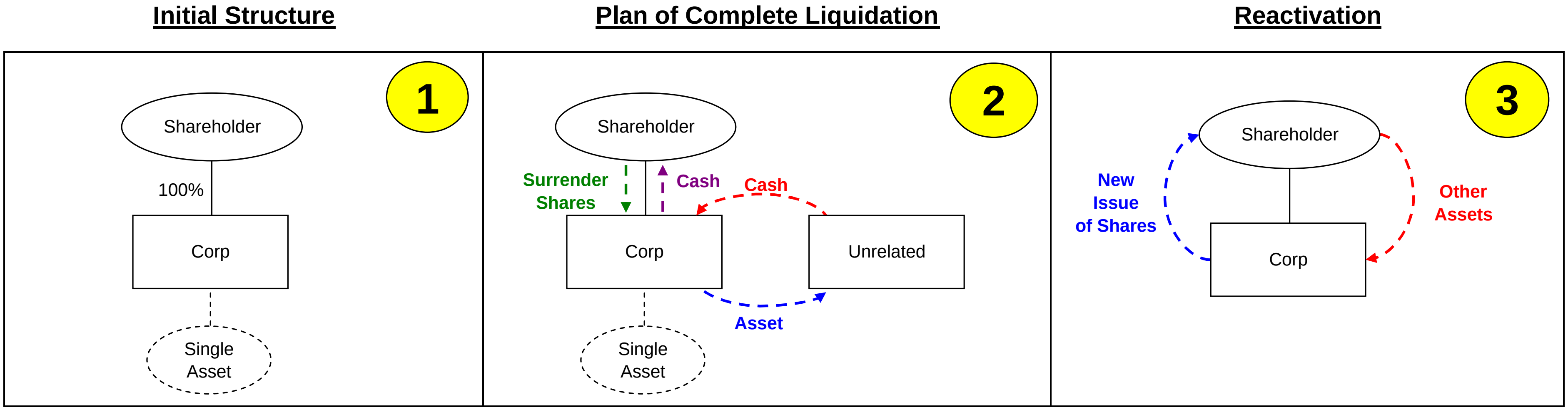
Revenue Ruling 60-50

Complete Liquidation Followed by Reactivation



A corporation adopted a plan of complete liquidation. Within twelve months, the corporation sold its only operating asset and distributed, in complete liquidation to its sole shareholder, all of the corporate assets. The capital stock of the corporation was surrendered for cancellation. However, the corporate charter was retained. At the time of the liquidation, arrangements were made that the directors of the corporation were to be nominees of the shareholder. Immediately after the final distribution in liquidation, the former shareholder of the corporation, using the old corporate charter, reactivated the corporation to carry on a new type of business operation. Assets were transferred to the corporation by the shareholder in exchange for a new issue of stock.

Section 337(a) provides, in effect, that, if a corporation adopts a plan of complete liquidation, and within the 12-month period beginning on the date of the adoption of such plan all of the assets of the corporation are distributed in complete liquidation, less assets retained to meet claims, then no gain or loss is recognized to such corporation from the sale or exchange by it of property within such 12-month period.

In general, a status of liquidation of a corporation exists when the corporation ceases to be a going concern and its activities are merely for the purpose of winding up its affairs, paying its debts, and distributing any remaining balance to its shareholders. The mere retention of its charter does not prevent the complete liquidation of a corporation. See Revenue Ruling 54-518. However, a status of liquidation cannot be assumed or discarded at will by a corporation merely by the adoption of a resolution of intent to liquidate by its shareholders, but rather it must be brought about by affirmative action resulting in the winding up of the corporation's business pursuant to a plan of complete liquidation. The ruling held that the immediate reactivation of the old corporation in another business by the transfer of assets to it by its former shareholder has the same effect as though the old corporation was only partially liquidated, even though the corporation engages in a different business.

As a result, the non-recognition provisions of section 337 did not apply to the "liquidated" corporation with respect to the sale of its property subsequent to the adoption of the plan of liquidation, since such corporation was not completely liquidated. The liquidation was a partial liquidation under former section 331(a)(2).