

Revenue Ruling 75-223 Situation 3

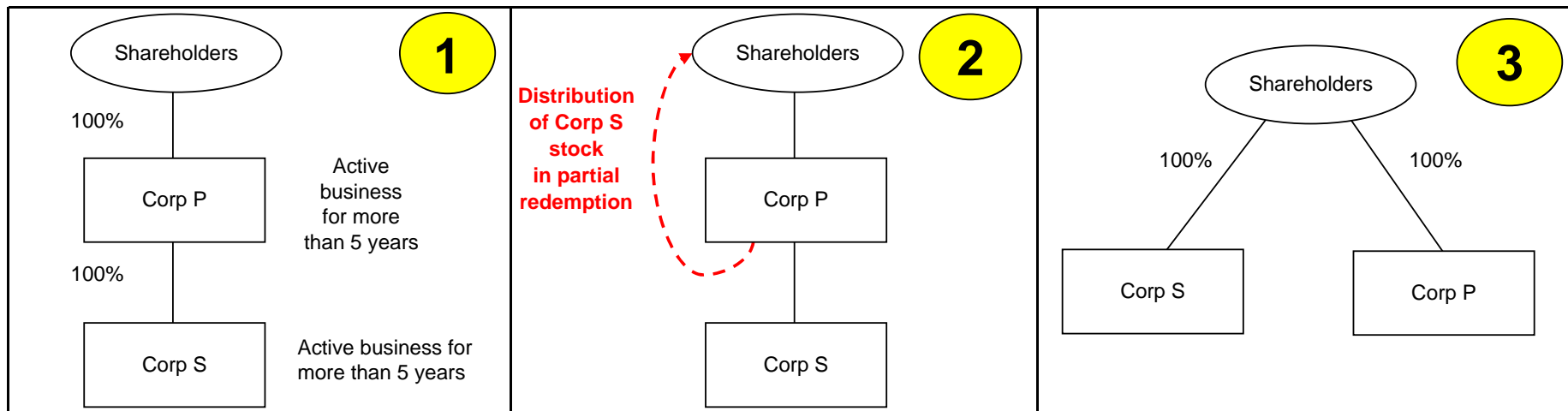
No Partial Liquidation on Distribution of Subsidiary Stock

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Initial Structure

Liquidation

Ending Point



Parent corporation P, and its wholly owned subsidiary corporation, S, have each been engaged in the active conduct of a trade or business for a period of more than five years and P has held all the stock of S throughout that period. A distribution by P of the assets used by S, or the proceeds of a sale of those assets, would have qualified as a partial liquidation under section 346(a)(2) if S's business activities had been conducted directly by P, for example, through a division, rather than through a subsidiary. Pursuant to a plan, P distributes all the stock of S pro rata to P's shareholders in redemption of part of their stock in P. The distribution takes place within one year from the date of the adoption of the plan.

The issue presented is whether, and to what extent, the fact that a corporation has conducted a portion of its business activities through a subsidiary rather than directly precludes the application of section 346(a)(2). The business activities of a subsidiary are not generally considered to be business activities of its parent corporation. Under normal circumstances, the mere fact that one corporation owns all the stock of another corporation is not sufficient to attribute the business of the subsidiary to the parent corporation.

When a parent corporation distributes to its shareholders the stock of a subsidiary, none of the tax attributes of the subsidiary carryover to the parent since section 381 does not apply when stock of a subsidiary is distributed. Moreover, a distribution of the stock of a subsidiary is a corporate separation and not a corporate contraction. Even though the assets of the parent corporation are diminished, the entire corporate enterprise is still in corporate solution and owned by the same shareholders. The tax consequences of corporate separations are governed by section 355 of the Code and the regulations thereunder. Accordingly, the distribution by P to its shareholders of S's stock does not qualify as a distribution in partial liquidation within the meaning of section 346(a)(2).

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