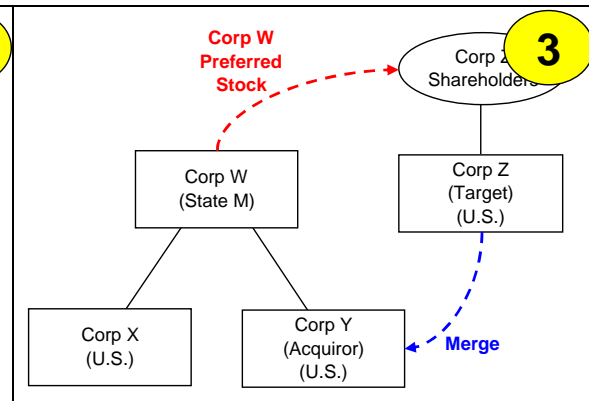
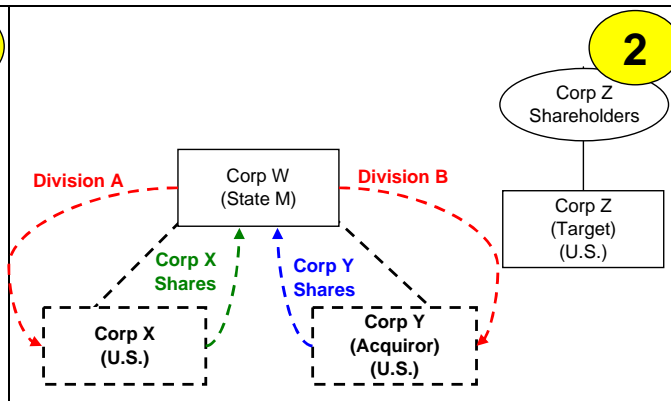
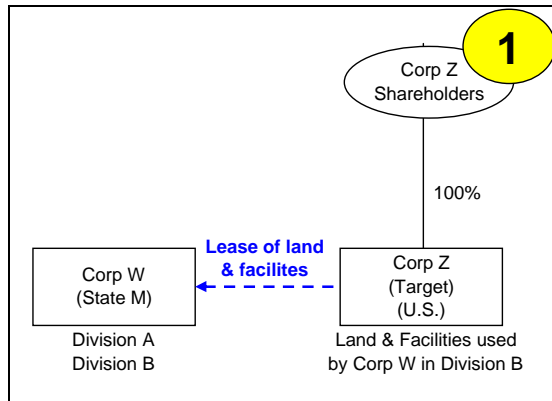


**Two Reorganizations Not Stepped Together As One**

Initial Structure

Contributions

Acquisition Merger

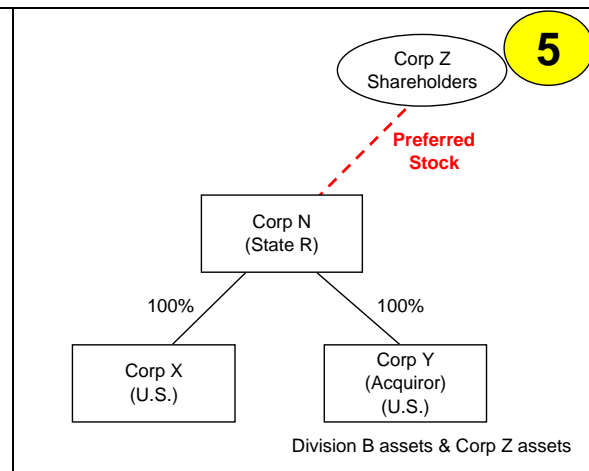
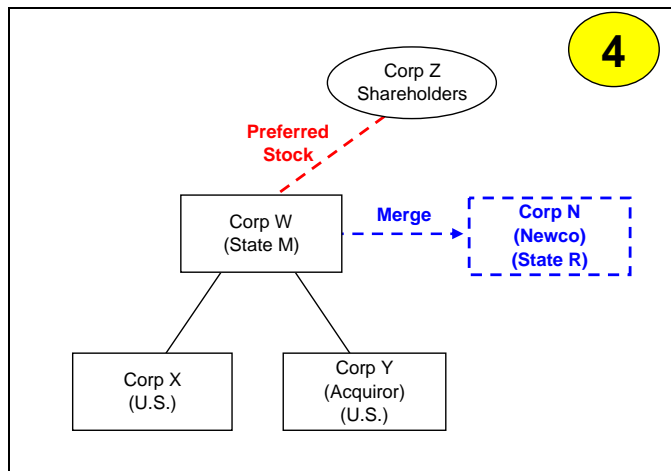


A series of events involving (1) a drop-down of all of the assets of a parent corporation (W) to two newly created controlled subsidiaries (X & Y), (2) a merger of an unrelated target corporation (Z) into one of the controlled subsidiaries (Y) in exchange for stock of the parent (W), and (3) a change in the place of organization of the parent (W) should be characterized as two separate reorganizations under section 368(a)(1)(A), by reason of section 368(a)(2)(D), and section 368(a)(1)(F).

If the several steps are viewed separately, the merger of Z into Y satisfies the technical requirements of a reorganization under section 368(a)(1)(A), by reason of section 368(a)(2)(D). The subsequent change in place of organization of W by the merger of W into N satisfies the requirements of a valid reorganization under section 368(a)(1)(F).

Reincorporation Merger

Ending Point



However, because this series of events was undertaken pursuant to an overall plan, a question arises regarding possible application of the "step transaction" doctrine. The step transaction doctrine generally permits a series of formally separate steps to be treated as a single transaction if they are in substance integrated, interdependent, and focused toward a particular end result. The IRS has indicated on several occasions that threshold steps will not be disregarded under a step transaction analysis if such preliminary activity results in a permanent alternation of a previous bona fide business relationship. Thus, the substance of each of a series of steps will be recognized and the step transaction doctrine will not apply, if each such step demonstrates independent economic significance, is not subject to attack as a sham, and was undertaken for valid business purposes and not mere avoidance of taxes. See, e.g., Rev. Rul. 78-330; Rev. Rul. 77-227; Rev. Rul. 76-223; Rev. Rul. 75-456; Rev. Rul. 69-516.

One consequence of integrating the series of events presented in this case would be a failure of W's reincorporation in state R to qualify as a reorganization under section 368(a)(1)(F) because of the change in shareholders and their proprietary interests in W that occurred as a result of the acquisition of Z. However, the facts of this case indicate that the acquisition merger resulted in a real and substantial change in form of ownership of the Z business, and is not subject to attack as a sham or illusory. The subsequent reincorporation of W in state R is likewise real and substantial and not subject to attack as a sham or illusory. Moreover, the economic motivation supporting each transaction is sufficiently meaningful on its own account, and is not dependent upon the other transaction for its substantiation, to warrant the conclusion that the overall plan presents two separate and independent reorganizations.