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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B03

PLR-100822-25

Date:

July 15, 2025

Legend

Distributing =

Controlled =

State A =

Date 1 =

Hazard =

Individual 1 =

Individual 2 =

Individual 3 =

a =

b =

c =

Business A =

Business B =

Dear :

This letter responds to your authorized representatives' letter dated December 30, 2024, as supplemented by subsequent information and documentation, requesting rulings on certain federal tax consequences of a series of proposed transactions (the "Proposed Transaction," as defined below). The material information submitted in that request and subsequent correspondence is summarized below.

This letter is issued pursuant to Rev. Proc. 2024-1, 2024-1 I.R.B. 1, and Rev. Proc. 2017-52, 2017-41 I.R.B. 283, as amplified and modified by Rev. Proc. 2024-24, 2024-21 I.R.B. 1214, regarding one or more "Covered Transactions" under sections 355 and 368 of the Internal Revenue Code (the "Code"). Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This Office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

This Office has made no determination regarding whether the Distribution (defined below) satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b).

Summary of Facts

Distributing is a privately held State A corporation that made an election under section 1362(a) to be treated as a subchapter S corporation (within the meaning of section 1361(a)) for federal income tax purposes effective Date 1. Distributing has voting and

non-voting common stock outstanding, each class of which is owned a% by Individual 1, b% by Individual 2, and c% by Individual 3.

Distributing is actively engaged in Business A and Business B. Distributing conducts Business A on a parcel of land that is subject to a potential environmental liability (Hazard). Hazard is subject to various state and local environmental regulations and subjects all of Distributing's assets to potential future liability claims. Distributing currently cannot acquire, on commercially reasonable terms, adequate insurance coverage against the environmental risks associated with Hazard. Distributing has sought opinion of counsel, who determined that contributing Hazard to a newly formed subsidiary would not properly protect Distributing's other assets from Hazard's potential future liabilities. Distributing proposes to undertake the Proposed Transaction (defined below) to mitigate risk concerns and insulate Business B from potential environmental liability claims arising from Hazard.

Distributing has submitted financial information in accordance with Rev. Proc. 2017-52 indicating that each of Business A and Business B had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Proposed Transaction

For what is represented to be a valid business purpose, Distributing proposes to engage in the following steps (collectively, the "Proposed Transaction"):

- (1) Distributing will incorporate Controlled, a State A corporation, and will timely elect for Controlled to be treated as a qualified subchapter S subsidiary ("QSub") under section 1361(b)(3)(B) for federal income tax purposes effective as of the date of its incorporation.
- (2) Distributing will transfer the assets and liabilities associated with Business B to Controlled (the "Contribution").
- (3) Distributing will distribute all the issued and outstanding stock of Controlled pro rata to its shareholders (the "Distribution").
- (4) Controlled will timely file a Form 2553 (Election by a Small Business Corporation) to be treated as a subchapter S corporation for federal income tax purposes effective as of the date of the Distribution.

Neither Distributing nor Controlled will have any current or accumulated earnings and profits in the year of the Distribution. After the Distribution, Distributing will be actively engaged in Business A and Controlled will be actively engaged in Business B.

Representations

Distributing has made the following representations in connection with the Proposed Transaction:

Rev. Proc. 2017-52:

Except as set forth below, Distributing has made all the representations in section 3 of the Appendix to Rev. Proc. 2017-52 except as modified by Rev. Proc. 2024-24.

Distributing has made the following alternative representations:

Representations 3(a), 8(a), 11(a), 22(a), 31(a), and 41(b).

Distributing has not made the following representations, which do not apply to the Proposed Transaction:

Representations 7, 35, 36, 37, 38, 39, and 40.

Distributing is unable to make the following representations but has provided the required explanation:

Representation 42.

Distributing has made the following additional representations in lieu of Representation 14:

There is no plan or intention by the shareholders or securityholders of Distributing to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Distributing or Controlled after the transaction.

There is no plan or intention by Distributing or Controlled, directly or through any related person (within the meaning section 267(b) or section 707(b)(1)), to purchase any of its outstanding stock after the transaction.

There is no plan or intention to liquidate either Distributing or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation, except in the ordinary course of business.

Distributing has made the following additional representation in lieu of Representation 15:

Immediately after the Distribution, the fair market value of the business assets of Distributing will be greater than 80 percent of the fair market value of its total assets. For this purpose, the term "business assets" of a corporation means its

gross assets used in one or more businesses. Such assets include cash and cash equivalents held as a reasonable amount of working capital for one or more businesses. Such assets also include assets required (by binding commitment or legal requirement) to be held to provide for exigencies related to a business or for regulatory purposes with respect to a business.

Distributing has not made the above representation with respect to Controlled but has provided required explanation.

Distributing has made the following representation in lieu of Representation 29:

There will have been no agreement, understanding, arrangement, substantial negotiations, or any plan or series of related transactions (within the meaning of Treas. Reg. § 1.355-7) at any point during the two-year period prior to the date of the Distribution regarding an acquisition of either Distributing or Controlled (including a predecessor or successor within the meaning of Treas. Reg. § 1.355-8) or a similar acquisition.

Rev. Proc 2024-24:

Except as set forth below, Distributing has made all the representations in sections 3.03 through 3.05 of Rev. Proc 2024-24.

Distributing has made the following alternative representation in section 3.03(2) of Rev. Proc. 2024-24:

Representation 1A and 15A.

Distributing has not made the following representations in section 3.03 of Rev. Proc. 2024-24, which do not apply to the Proposed Transaction:

Representations 2, 3, 4, 5, 6, 7, 16, 17, 18, 19, 20, 22, 25, 26, 27, 28, 29, 30, and 35.

Rulings

Based solely on the information submitted and the representations set forth above, we rule as follows with respect to the Proposed Transaction:

1. The Distribution will cause a termination of Controlled's QSub election because Controlled will cease to be a wholly owned subsidiary of a subchapter S corporation. For federal income tax purposes, Controlled will be treated as a new corporation acquiring all of its assets and assuming all of its liabilities from Distributing immediately before the termination of Controlled's QSub election in

exchange for the stock of Controlled pursuant to Treas. Reg. § 1.1361-5(b)(1)(i) and section 1361(b)(3)(B) and (C) (the "Contribution").

2. The Contribution and Distribution will qualify as a reorganization under section 368(a)(1)(D) and section 355(a). Distributing and Controlled each will be a "party to a reorganization" under section 368(b).
3. Distributing will not recognize gain or loss on the Contribution. Sections 357(a) and 361(a).
4. Controlled will not recognize gain or loss on the Contribution. Section 1032(a).
5. Controlled's basis in each asset received from Distributing in the Contribution will be the same as the basis of such asset in the hands of Distributing immediately before the Contribution. Section 362(b).
6. Controlled's holding period in each asset received from Distributing in the Contribution will include the period during which Distributing held that asset. Section 1223(2).
7. Distributing will not recognize gain or loss on the Distribution. Section 361(c)(1).
8. Distributing's shareholders will not recognize gain or loss (and no amount otherwise will be includable in their income) upon the receipt of Controlled stock in the Distribution. Section 355(a)(1).
9. The basis of the Distributing stock and Controlled stock in the hands of Distributing's shareholders immediately after the Distribution will be the same as the basis of the Distributing stock held by Distributing's shareholders immediately before the Distribution, allocated between Distributing stock and Controlled stock in proportion to the fair market value of each in accordance with Treas. Reg. § 1.358-2(a)(2). Section 358(b)(2) and (c).
10. The holding period of the Controlled shares received by each Distributing shareholder in the Distribution will include the holding period of the Distributing stock held by such shareholder with respect to which the Distribution is made, provided that such Distributing stock is held by the shareholder as a capital asset on the date of the Distribution. Section 1223(1).
11. Earnings and profits of Distributing, if any, will be allocated between Distributing and Controlled in accordance with section 312(h) and Treas. Reg. § 1.312-10(a).
12. Distributing's accumulated adjustment account immediately before the transaction will be allocated between Distributing and Controlled in a manner similar to the manner in which Distributing's earnings and profits will be allocated

under section 312(h) in accordance with Treas. Reg. § 1.1368-2(d)(3). Treas. Reg. §§ 1.312-10(a) and 1.1368-2(d)(3).

13. Distributing's momentary ownership of the stock of Controlled, as part of the reorganization under section 368(a)(1)(D), will not cause Controlled to have an ineligible shareholder for any portion of its first taxable year under section 1361(b)(1)(B), and will not, in itself, render Controlled ineligible to elect to be a subchapter S corporation for its first taxable year. If Controlled otherwise meets the requirements of a small business corporation under section 1361, Controlled will be eligible to make a subchapter S election under section 1362(a) for its first taxable year, provided that such election is made effective immediately following the termination of the original QSub election.

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

Procedural Statements

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, a taxpayer filing its return electronically may satisfy this requirement by attaching a statement to its return that provides the date on and control number of this letter ruling (PLR-100822-25).

In accordance with the Power of Attorney on file with this Office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Aglaia Ovtchinnikova
Acting Branch Chief, Branch 3
Office of Associate Chief Counsel (Corporate)

PLR-100822-25

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cc: