

## Internal Revenue Service

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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:BO5  
PLR-109415-25

Date:  
September 18, 2025

### Legend

Distributing =

Controlled =

Shareholder A =

Shareholder B =

Shareholder C =

Entity 1 =

Entity 2 =

Business 1 =

Business 2 =

Date 1 =

Date 2 =

Continuing Arrangements =

Transition Services Agreement =

a =

Dear :

This letter responds to your authorized representatives' letter dated April 21, 2025, as supplemented by subsequent information and documentation, requesting rulings on certain federal tax consequences of a proposed transaction (the "Proposed Transaction"). The material information submitted in that letter and subsequent correspondence is summarized below.

This letter is issued pursuant to Rev. Proc. 2025-1, 2025-1 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"). This Office expresses no opinion as to any issue not specifically addressed by the rulings below.

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 domestic, closely held corporation. Effective as of Date 1, Distributing made an election under section 1362(a) to be treated as a subchapter S corporation (within the meaning of section 1361(a)). Distributing has both voting and non-voting stock outstanding. All of Distributing's issued and outstanding stock is owned equally by three related shareholders, Shareholder A, Shareholder B, and Shareholder C, individually or through qualifying trusts.

Distributing conducts Business 1 through wholly owned (directly and indirectly through a disregarded entity) Entity 1 and Business 2 through wholly owned Entity 2. Both Entity 1 and Entity 2 are disregarded as separate from Distributing for federal income tax purposes. Distributing has submitted financial information in accordance with Rev. Proc. 2017-52 indicating that Business 1 and Business 2 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 are represented to be valid business reasons, Distributing has or will undertake the following steps:

1. Controlled was formed on Date 2.
2. Distributing will transfer all of its interest in Entity 1 to Controlled in exchange for all of the Controlled stock (the "Contribution").
3. Immediately thereafter, Distributing will distribute the Controlled stock pro rata to Shareholders A, B, and C (the "Distribution").
4. Controlled will timely elect under section 1362(a) to be treated as subchapter S corporation (within the meaning of section 1361(a)), to be effective as of the date of the Distribution.

Following the Distribution, Distributing and Controlled will have no overlapping directors or officers. Further, Distributing and Controlled will engage in Continuing Arrangements, which arrangements will be at arm's-length terms. Controlled will implement its own health insurance and 401(k) employee benefit plans following the Distribution. If necessary, Distributing and Controlled will enter into a Transition Services Agreement relating to benefits administration for a period not to exceed    years after the Distribution.

## Representations

### **Rev. Proc. 2017-52:**

Except as otherwise provided below and except for the representations superseded by Rev. Proc. 2024-24, Distributing makes all the representations in Section 3 of the Appendix to Rev. Proc. 2017-52 with respect to the Proposed Transaction.

Distributing has made the following alternative representations:

Representations 3(a), 8(b), 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, 19, 35, 36, 37, 38, 39 and 40.

Distributing has made the following additional representations in lieu of Representation 14 in Rev. Proc. 2017-52:

Additional Representation 1: 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 Distribution.

Additional Representation 2: There is no plan or intention by Distributing or Controlled, directly or through any related person (within the meaning of section 267(b) or section 707(b)(1)) to purchase any of its outstanding stock after the Distribution.

Additional Representation 3: 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 after the Distribution, except in the ordinary course of business.

Distributing has made the following additional representations in lieu of Representation 15 in Rev. Proc. 2017-52:

Additional Representation 4: Immediately after the Distribution, the fair market value of the business assets of each of Distributing and Controlled 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 and all members of such corporation's separate affiliated group (within the meaning of section 355(b)(3)(B)) are treated as one corporation. 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 made the following additional representation in lieu of Representation 29 in Rev. Proc. 2017-52:

Additional Representation 5: There was no agreement, understanding, arrangement, or substantial negotiations at any point during the two-year period ending on the date of the distribution regarding an acquisition of either Distributing or Controlled (including a predecessor or successor within the meaning of § 1.355-8) or a similar acquisition.

**Rev. Proc. 2024-24:**

Except as set forth below, Distributing has made all of the representations in sections 3.03 and 3.05 of Rev. Proc. 2024-24 with respect to the Proposed Transaction.

Distributing has made the following alternative representation:

Representation 15A

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

Representations 1, 2, 3, 4, 5, 6, 7, 17, 18, 19, 20, 22, 25, 26, 27, 28, 29, 30, and 35.

Distributing has made the following modified representation:

Representation 33: The Distributing Debt that Controlled is treated as assuming will be assumed by Controlled pursuant to the Proposed Transaction, there will be no separate agreement between Distributing and Controlled.

**Rulings**

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

1. The Contribution together with the Distribution will constitute a “reorganization” within the meaning of section 368(a)(1)(D). Distributing and Controlled will each be “a party to the reorganization” within the meaning of section 368(b).

2. Distributing will recognize no gain or loss on the Contribution. Sections 357(a) and 361(a).
3. Controlled will recognize no gain or loss on the Contribution. Section 1032(a).
4. The basis of the assets received by Controlled in the Contribution will equal the basis of such assets in the hands of Distributing immediately before the Contribution. Section 362(b).
5. The holding period in each asset received by Controlled in the Contribution will include the period during which the asset was held by Distributing. Section 1223(2).
6. Distributing will recognize no gain or loss on the Distribution. Section 361(c).
7. Distributing's shareholders will recognize no gain or loss (and no amount will be includable in their income) upon receipt of Controlled stock in the Distribution. Section 355(a).
8. 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).
9. The holding period of the Controlled stock received by each Distributing shareholder in the Distribution will include the holding period of the Distributing stock held by the shareholder with respect to which the Distribution is made, provided that the Distributing stock is held by the shareholder as a capital asset on the date of the Distribution. Section 1223(1).
10. Earnings and profits of Distributing will be allocated between Distributing and Controlled in accordance with section 312(h) and Treas. Reg. § 1.312-10(a).
11. Distributing's accumulated adjustments 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). Treas. Reg. §§ 1.312-10(a) and 1368-2(d)(3).
12. 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 an 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 upon the Distribution.

### **Caveats**

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the Proposed Transaction under any provision of the Code and regulations or the tax treatment of any condition existing at the time of, or effects resulting from, the Proposed Transaction that is not specifically covered by the above rulings.

### **Procedural Statements**

This ruling is directed only to the taxpayers 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 the letter ruling (PLR-109415-25).

Pursuant to the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

By: \_\_\_\_\_  
Julie T. Wang  
Senior Technician Reviewer, Branch 2  
Office of the Associate Chief Counsel, Corporate

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cc: