

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **202621006**
Release Date: 5/22/2026

Third Party Communication: None
Date of Communication: Not Applicable

Index Number: 355.00-00, 355.01-01,
368.00-00, 368.04-00

Person To Contact: _____, ID No.

Telephone Number:

Refer Reply To:
CC:CORP:1
PLR-117071-25
Date:
February 20, 2026

LEGEND

Distributing =

Controlled =

Business 1 =

Distributing
Assets =

Controlled
Assets =

Shareholder A =

Shareholder B =

Shareholder C =

Shareholder D =

Date 1 =

Date 2 =

Dear _____ :

This letter responds to your authorized representatives' letter dated September 23, 2025, as supplemented by subsequent letters and documentation, requesting rulings on certain federal tax consequences of the proposed transaction described below (the "Proposed Transaction"). The material information submitted in that request and subsequent correspondence is summarized below.

This letter is issued pursuant to Rev. Proc. 2025-1, 2025-1 I.R.B. 1, Rev. Proc. 2024-24, 2024-21 I.R.B. 1214, and Rev. Proc. 2017-52, 2017-41 I.R.B. 283, regarding one or more "Covered Transactions" under Sections 355 and 368 of the Internal Revenue Code (the "Code"), and Rev. Proc. 2023-26, 2023-33 I.R.B. 486. This Office expresses no opinion as to any issue not specifically addressed by the rulings below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by penalties of perjury statements executed by an appropriate party. This office has not verified any of the material submitted in support of the request for ruling. 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).

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 a single class of outstanding voting stock, all of which was equally owned by two shareholders, Shareholder A and Shareholder B. Shareholder A, Shareholder B, Shareholder C, and Shareholder D are related by virtue of one or more relationships described in section 267(b).

Distributing is engaged in Business 1. Distributing has submitted financial information in accordance with Rev. Proc. 2017-52 indicating that Business 1 had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

THE PROPOSED TRANSACTION

For what are represented to be valid business reasons, Distributing has or will undertake the following steps:

1. Effective Date 2, Shareholder A and Shareholder B transferred their interests in Distributing for no consideration to Shareholder C and Shareholder D in equal

measures. Shareholder C and Shareholder D currently own all the outstanding stock in Distributing.

2. Distributing will form Controlled as a domestic corporation. Controlled will have one class of voting stock outstanding.
3. Distributing will transfer the Controlled Assets to Controlled in exchange for all of the Controlled stock and the assumption by Controlled of the liabilities associated with the transferred assets (the "Contribution").
4. Distributing will distribute the stock of Controlled to Shareholder D in exchange for all of Shareholder D's stock in Distributing (the "Distribution").
5. Immediately after the Distribution, Controlled will make an election under section 1362(a) to be treated as a subchapter S corporation and will have one class of stock outstanding.

REPRESENTATIONS

Rev. Proc. 2017-52

Except as otherwise provided below and except for the representations superseded by Rev. Proc. 2024-24, Distributing has made all of 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(a), 11(a), 15(a), 22(a), 31(a), and 41(b).

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

Representations 5, 6, 24, 25, 35, 36, 37, 38, 39, and 40.

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:

Representations 1(a), 15(a), and 17(a).

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

Representations 2, 3, 4, 5, 6, 7, 18, 19, 20, 22, 24, 25, 26, 27, 28, 29, and 35.

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. Shareholder D will recognize no gain or loss (and no amount will be includable in income) upon receipt of Controlled stock in the Distribution. Section 355(a).
8. The basis of the Controlled stock in the hands of Shareholder D immediately after the Distribution will be the same as the basis of the Distributing stock held by Shareholder D immediately before the Distribution. Section 358(a)(1).
9. Shareholder D’s holding period in the Controlled stock received in the Distribution will include the holding period of the Distributing stock surrendered in the Distribution, provided that the Distributing stock is held as a capital asset in the hands of Shareholder D 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). See Treas. Reg. §§ 1.312-10(a) and 1.1368-2(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.
13. The transfer of stock by Shareholder A and Shareholder B to Shareholder C and Shareholder D pursuant to the plan of reorganization does not adversely affect the qualification of the transaction for nonrecognition of gain or loss under sections 355 or 368(a)(1)(D).

CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the arrangements under any other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the arrangements that are not specifically addressed by this letter. No opinion is expressed or implied as to the validity of the agreements under any area of law other than the Code.

PROCEDURAL STATEMENTS

This ruling letter 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 ruling letter must be attached to any federal income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number (PLR-117071-25) of this ruling letter.

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

PLR-117071-25

6

Sincerely,

John B. Lovelace
Senior Technician Reviewer
(Corporate)

cc: