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:B02
PLR-102725-26

Date:
May 05, 2026

Legend

Shareholder A =

Shareholder B =

Shareholder C =

Distributing =

Controlled =

Business A =

Controlled Assets =

State A =

a =

b =

Dear :

This letter responds to your authorized representatives' letter dated January 9, 2026, as supplemented by subsequent information and documentation (the "Ruling Request"), requesting rulings on certain U.S. federal income tax consequences of a series of transactions (the "Proposed Transaction," as described below). The material information submitted in the Ruling Request and in subsequent correspondence is summarized below.

This letter is issued pursuant to Rev. Proc. 2026-1, 2026-1 I.R.B. 1, Rev. Proc. 2025-30, 2025-42 I.R.B. 489, and Rev. Proc. 2017-52, 2017-41 I.R.B. 283, as amplified and modified by Rev. Proc. 2025-30, regarding a transaction 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 upon information and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination. 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 (as defined below) satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b).

Summary of Facts

Distributing is a closely held State A corporation that operates Business A. Distributing has 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 voting common stock outstanding that is owned as follows: Shareholder A owns a% and Shareholders B and C each own b%.

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

Proposed Transaction

For valid business purposes, Distributing proposes to divide Business A operations according to the following Proposed Transaction:

1. Distributing will form Controlled as a State A corporation, and effective as of the date of its incorporation will elect to treat Controlled as a qualified Subchapter S subsidiary of Distributing within the meaning of 1361(b)(3) (a “QSub”) for U.S. federal tax purposes.

2. Distributing will transfer the Controlled Assets to Controlled in exchange for (i) all the stock of Controlled, and (ii) Controlled’s assumption of all the liabilities associated with the Controlled Assets (the “Contribution”).

3. Distributing will distribute all the Controlled stock to Shareholders B and C in exchange for all their Distributing stock (the “Distribution”).

4. Controlled will timely elect under section 1362(a) to be treated as a subchapter S corporation for U.S. federal income tax purposes, effective immediately after the Distribution.

After the Distribution, Shareholders B and C will own all the stock of Controlled, and Shareholder A will own all the stock of Distributing. After the Distribution, Shareholder A will not be involved in the management of Controlled and Shareholders B and C will not be involved in the management of Distributing. Additionally, no continuing arrangements or commercial agreements between Distributing or Controlled will exist after the date of the Distribution.

Representations

Except as otherwise provided below, Distributing makes all the representations in Rev. Proc. 2017-52 and Rev. Proc. 2025-30, with respect to the Proposed Transaction:

1. Distributing makes the following alternative representations in section 3 of the Appendix to Rev. Proc. 2017-52: 3(a); 8(a); 11(a); 22(a); 31(a); and 41(b).

2. Distributing does not make the following representations in section 3 of the Appendix to Rev. Proc. 2017-52, which do not apply to the Proposed Transaction: 5; 6; 24; 25; and 36 through 40.

3. Distributing makes the following additional representations in lieu of Representations 14, 15 and 29 in section 3 of the Appendix to 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 transaction.

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 transaction.

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 transaction, except in the ordinary course of business.

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.

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 Treas. Reg. § 1.355-8) or a similar acquisition.

4. Distributing does not make the following representations in Rev. Proc. 2025-30, which do not apply to the Proposed Transaction: The second representation in section 3.04(3) and the representation in section 3.04(6).

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 not recognize gain or loss on the Contribution. Sections 357(a) and 361(a).

3. Controlled will not recognize gain or loss on the Contribution. Section 1032(a).

4. Controlled's basis in each asset received in the Contribution will be the same as the basis of such assets in the hands of Distributing immediately before the Contribution. Section 362(b).

5. Controlled's holding period in each asset received in the Contribution will include the period during which Distributing held the asset. Section 1223(2).

6. Distributing will not recognize gain or loss on the Distribution. Section 361(c).

7. Shareholders B and C will not recognize gain or loss (and no amount will be includable in their income) upon receipt of Controlled stock in the Distribution. Section 355(a).

8. Shareholders B and C's basis in the Controlled stock immediately after the Distribution will equal Shareholder B and C's basis in the Distributing stock surrendered in the Distribution and will be allocated among the shares received in the manner described in Treas. Reg. § 1.358-2(a). Section 358(a)(1) and (b).

9. Shareholders B and C's holding period in 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 Shareholders B and C on the date of the Distribution. Section 1223(1).

10. 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).

11. 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 U.S. federal income tax purposes, Controlled will be treated as a new corporation acquiring all its assets and assuming all 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). Section 1361(b)(3)(B) and (C).

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, by 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 permitted 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 QSub election.

13. 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).

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 are 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-102725-26).

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

Sincerely,

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Lilia Stamm
Senior Counsel, Branch 2
Office of Associate Chief Counsel
(Corporate)

cc: