Part I

Section 355.--Distribution of Stock and Securities of a
Controlled Corporation

26 CFR 1.355-2:  Limitations.
(Also § 7805; 301.7805-1.)

Rev. Rul. 98-27

PURPOSE

This revenue ruling obsoletes Rev. Ruls. 96-30, 1996-1 C.B.

36, and 75-406, 1975-2 C.B. 125, modified by Rev. Rul. 96-30.

This revenue ruling also modifies Rev. Rul. 70-225, 1970-1 C.B.

80.

BACKGROUND

Rev. Rul. 96-30 applies the principles of Commissioner v.

Court Holding Co., 324 U.S. 331 (1945), to a distribution of

controlled corporation stock by a publicly traded parent,

followed by a merger of the controlled corporation into an

unrelated acquiring corporation.  The former shareholders of the

controlled corporation receive a 25 percent interest in the

acquiring corporation.  Based on all the facts and circumstances,

the ruling concludes that the transaction satisfies the

requirements of § 355 of the Internal Revenue Code.  Rev. Rul.
96-30 also modifies the factually similar Rev. Rul. 75-406 by
eliminating the implication that an independent, postdistribution
shareholder vote to approve the acquisition of a controlled
corporation is, by itself, enough to prevent application of the
step transaction doctrine.

Section 1012(c) of the Taxpayer Relief Act of 1997 (the
"Act"), Pub. L. No. 105-34, 111 Stat. 788, 916-17, amended the
control requirements of §§ 351 and 368(a)(1)(D) to provide that,
generally for transactions seeking qualification after August 5,
1997 under either provision and § 355, the shareholders of the
distributing corporation must own stock possessing more than 50
percent of the voting power and more than 50 percent of the total
value of the controlled corporation's stock immediately after the
distribution.  Sections 351(c) and 368(a)(2)(H).  In addition,
§ 1012(a) of the Act amended § 355 by adding subsection (e),
which provides rules for the recognition of gain on certain
distributions of stock or securities of a controlled corporation
in connection with acquisitions of stock representing a 50
percent or greater interest in the distributing corporation or
any controlled corporation.  Section 1012(a) of the Act generally
applies to distributions after April 16, 1997, pursuant to a plan
(or series of related transactions) that involves an acquisition
described in § 355(e)(2)(A)(ii) occurring after such date.

The Conference Report accompanying the legislation states,
in part, that:

The House bill does not change the present-law
requirement under section 355 that the distributing
corporation must distribute 80 percent of the voting
power and 80 percent of each other class of stock of
the controlled corporation.  It is expected that this
requirement will be applied by the Internal Revenue
Service taking account of the provisions of the
proposal regarding plans that permit certain types of
planned restructuring of the distributing corporation
following the distribution, and to treat similar
restructurings of the controlled corporation in a
similar manner.  Thus, the 80-percent control
requirement is expected to be administered in a manner
that would prevent the tax-free spin-off of a less-
than-80-percent controlled subsidiary, but would not
generally impose additional restrictions on post-
distribution restructurings of the controlled
corporation if such restrictions would not apply to the
distributing corporation.

H.R. Rep. No. 105-220, at 529-30 (1997).

ANALYSIS

The application of Court Holding principles to determine

whether the distributed corporation was a controlled corporation

immediately before the distribution under § 355(a) imposes a

restriction on postdistribution acquisitions or restructurings of

a controlled corporation that is inconsistent with § 1012 of the

Act.  See § 1012(c) of the Act and H.R. Rep. No. 105-220, at

529-30.  Accordingly, the Service will not apply Court Holding

(or any formulation of the step transaction doctrine) to

determine whether the distributed corporation was a controlled

corporation immediately before the distribution under § 355(a)

solely because of any postdistribution acquisition or

restructuring of the distributed corporation, whether prearranged

or not.  In otherwise applying the step transaction doctrine, the

Service will continue to consider all facts and circumstances.

See, e.g., Rev. Rul. 63-260, 1963-2 C.B. 147.  An independent
shareholder vote is only one relevant factor to be considered.

HOLDING

Based on the enactment of § 1012 of the Act, the Service
will not apply Court Holding (or any formulation of the step
transaction doctrine) to determine whether the distributed
corporation was a controlled corporation immediately before the
distribution under § 355(a) solely because of any
postdistribution acquisition or restructuring of the distributed
corporation, whether prearranged or not.

EFFECT ON OTHER REVENUE RULINGS

Rev. Ruls. 96-30 and 75-406 are obsoleted.  Rev. Rul. 70-225
is modified to the extent inconsistent with this revenue ruling.

EFFECTIVE DATE

Pursuant to the authority of § 7805(b), this revenue ruling
applies to distributions after April 16, 1997.  However, this
revenue ruling does not apply to a distribution pursuant to a
plan (or series of related transactions) that involves an
acquisition described in § 355(e)(2)(A)(ii) if the acquisition is
pursuant to an agreement that was binding on April 16, 1997 and
at all times thereafter, described in a ruling request submitted
to the Service on or before that date, or described on or before
that date in a public announcement or in a filing with the
Securities and Exchange Commission required solely by reason of
the acquisition or restructuring.  The previous sentence shall
not apply to any agreement, ruling request, or public

announcement or filing unless it identifies the acquirer of the distributed corporation.

DRAFTING INFORMATION

The principal author of this revenue ruling is Phoebe Bennett of the Office of Assistant Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Ms. Bennett at (202) 622-7750 or Brendan P. O'Hara at (202) 622-7530 (not toll free calls).