

Internal Revenue Service (I.R.S.)

Revenue Ruling

SECTION 351

Released: December 20, 2005

Published: January 9, 2006

Section 351.--Transfer to Corporation Controlled by Transferor, 26 CFR 1.351-1:
Transfer to Corporation Controlled by Transferor.

Section 351. The conclusion in Rev. Rul. 74-503 that a transferor's basis in transferee stock received in exchange for transferor stock is determined under section 362(a) of the Code is incorrect. The other conclusions in the ruling are under study. Rev. Rul. 74-503 revoked.

Section 351. The conclusion in Rev. Rul. 74-503 that a transferor's basis in transferee stock received in exchange for transferor stock is determined under section 362(a) of the Code is incorrect. The other conclusions in the ruling are under study. Rev. Rul. 74-503 revoked.

In Rev. Rul. 74-503, 1974-2 C.B. 117, corporation X transferred shares of its treasury stock to corporation Y in exchange for newly issued shares of Y stock. In the exchange, X obtained 80 percent of the only outstanding class of Y stock. Rev. Rul. 74-503 concludes that the basis of the X treasury stock received by Y is zero and the basis of the newly issued Y stock received by X is zero.

Rev. Rul. 74-503 states that X's basis in the Y stock received in the exchange is determined under § 362(a) of the Internal Revenue Code. This conclusion is incorrect. Accordingly, Rev. Rul. 74-503, 1974-2 C.B.117, is revoked, effective December 20, 2005. The other conclusions in the ruling, including the conclusions that X's basis in the Y stock received in the exchange and Y's basis in the X stock received in the exchange are zero, are under study.

Under the authority of § 7805(b), the Service will not challenge a position taken prior to December 20, 2005, with respect to a transaction occurring prior to such date, by a taxpayer that reasonably relied on the conclusions in Rev. Rul. 74-503. See § 601.601(d)(2)(v) of the Statement of Procedural Rules.

EFFECT ON OTHER DOCUMENTS

Rev. Rul. 74-503, 1974-2 C.B. 117, is revoked.

Rev. Rul. 2006-2, 2005 WL 3466292 (IRS RRU)