

Part I

Section 351.—Transfer to Corporation Controlled by Transferor

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

Rev. Rul. 2006-2

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.

DRAFTING INFORMATION

The principal author of this revenue ruling is Mary Goode of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Ms. Goode (202) 622-7930 (not a toll-free call).

EFFECT ON OTHER DOCUMENTS

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