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**SPIN OFFS & SPLIT UPS**

**Dan G. Baucum**

**William D. Elliott**

Author Contact Information:

Dan G. Baucum  
Ferguson Braswell Fraser Kubasta PC  
Plano, TX  
dbaucum@fbfk.law  
972.378.9111

William D. Elliott  
Law Offices of William D. Elliott  
Dallas, Texas  
bill@wdelliottlaw.com  
214.922.9393



## **SPIN OFFS & SPLIT UPS**

**By: Dan G. Baucum**  
**Ferguson Braswell Fraser Kubasta PC**  
**Plano, TX**

**William D. Elliott**  
**Law Offices of William D. Elliott**  
**Dallas, Texas**

### **PART 1. SUBCHAPTER S CORPORATIONS**

#### **1. Brief Introduction to Subchapter S Corporations**

**1.1 Corporate Taxation.** Subchapter C of Chapter 1 of the Internal Revenue Code contains the C Corporation tax provisions. A corporation can be either a C Corporation or an S Corporation for federal income tax purposes.

- A.** Basic premise of C Corporate tax: The corporation and its shareholders are two distinct taxpayers.
- B.** Basic premise of S Corporate tax: The S corporation is a flow through entity in which its shareholders, rather than the corporation, are generally taxed on the corporation's earnings, regardless of whether the earnings are distributed. Subchapter C applies to an S corporation, except to the extent of any inconsistency involving an S corporation.

**1.2 Section 355.** Section 355 provides that when certain judicial and statutory requirements are satisfied, a corporation can be divided into two or more separate corporations on a tax-free basis. The rationale is that a corporate division is merely a change in the form of business which continues to be owned and operated by the same shareholders. The intended purpose of Section 355 separations is to facilitate the rearrangement of continuing business activities for business reasons in a form that does not resemble a cashing out of an equity investment.<sup>1</sup>

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<sup>1</sup> Bittker & Eustice, ¶11.06[1].

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"“Breaking Up is Hard to Do”: S Corp, LLC and Partnership Divisions"