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Rev. Proc. 2018-12: Safe harbors for “continuity of interest” requirement, value of stock in certain reorganizations

The IRS late this afternoon released an advance version of Rev. Proc. 2018-12 that provides safe harbor methods for taxpayers to use to value certain stock received by a target corporation’s shareholders in a potential reorganization, for purposes of determining whether the “continuity of interest” (COI) requirement under Reg. section 1.368-1(e) has been satisfied.

The purpose of this report is to provide text of the revenue procedure.

[Rev. Proc. 2018-12](#) [PDF 32 KB] provides that, if certain conditions are satisfied, the safe harbor method allows taxpayers to use:

- The average of the daily volume weighted average prices
- The average of the average high-low daily prices, or
- The average of the daily closing prices of stock trading on certain stock exchanges

The revenue procedure states that the IRS will not challenge a taxpayer’s use of one of these safe harbor methods to determine the value of stock, instead of using the stock’s actual trading price on a particular day.

Rev. Proc. 2018-12 explains transactions to which the safe harbor methods apply and applies with respect to transactions with an effective date on or after January 23, 2018.

Rev. Proc. 2018-12 also provides that the IRS will consider requests for rulings and determination letters regarding transactions and legal issues to which these safe harbors do not apply and regarding application of the safe harbors.

The IRS on January 31 issued a [transmittal message](#) explaining that certain provisions of Rev. Proc. 2018-12 were updated to reflect corrections made to the version that was released on January 23, 2018.

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