



# TaxNewsFlash

## United States

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### **Rev. Proc. 2016-45: Section 355 items removed from “no-rule areas”**

The IRS today released an advance version of Rev. Proc. 2016-45 that removes two items relating to distributions of stock of controlled corporations under section 355 from the “no-rule areas” (areas on which the IRS will not issue letter rulings or determination letters).

[Rev. Proc. 2016-45](#) [PDF 33 KB] states that the two areas that are no longer “no-rule areas” are significant legal issues relating to:

- The requirement under Reg. section 1.355-2(b) that a distribution be carried out for a corporate business purpose—the “corporate business purpose requirement”
- The requirement under section 355(a)(1)(B) and Reg. section 1.355-2(d) that a transaction will not be used principally as a device for the distribution of earnings and profits of the distributing corporation, the controlled corporation, or both—the “device”

### **Summary**

For many years, the IRS ruling procedures have precluded the issuance of a letter ruling or determination letter as to whether a distribution of stock of a controlled corporation satisfies the corporate business purpose requirement or whether it is used principally as a device.

Today’s revenue procedure states that the IRS has determined there are unresolved legal issues pertaining to the corporate business purpose requirement and to device measure that can be germane to determining the tax consequences of a distribution. The IRS thus determined that it is appropriate and in the interest of sound tax administration to provide guidance to taxpayers on significant issues in these two areas.

Rev. Proc. 2016-45 explains that the IRS will issue a letter ruling with respect to a significant issue under Reg. section 1.355-2(b) pertaining to the corporate business purpose requirement, and a significant issue under section 355(a)(1)(B) and Reg. section 1.355-2(d) pertaining to device—provided that the issue is a legal issue and is not inherently factual in nature.

Still, as with other requests for letter rulings, the IRS can decline to issue a letter ruling addressing these significant issues when appropriate in the interest of sound tax administration or on other grounds when warranted by the facts or circumstances of a particular case.

Rev. Proc. 2016-45 applies to all ruling requests that are postmarked or, if not mailed, received on or after August 26, 2016, and relate to distributions that occur after August 26, 2016.

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