

## How An “F” Reorganization Can Help Your Business

An “F” reorganization is a type of tax-free reorganization under Internal Revenue Code Section 368(a)(1) (F), which includes a mere change in identity or form of one corporation. F reorganizations are typically used to effectuate a tax-free shift of a single operating company. They are frequently used as part of a pre-sale strategy or for changing certain undesired attributes of an operating company. Examples of such changes include a name change, a reincorporation of a corporation in the same or a different state, or a change in the form of business organization.

In recent years, the Internal Revenue Service issued final regulations on the qualification of F reorganizations. Six requirements are set forth in Treas. Reg. §1.368-2(m)(i) through (vi). These regulations, which apply to transactions occurring on or after September 21, 2015, explain the elements for a tax-free F reorganization such that there is no gain or loss to the corporation on the transfer of its assets to a new corporation in exchange for stock of the new corporation, and no gain or loss to the shareholders upon the exchange of old stock for new stock. All six conditions must be met in addition to the general requirements of business purpose and plan of reorganization. The continuity of interest and the continuity of business enterprise requirements, applicable to other types of reorganizations, are not required for F reorganizations for transactions occurring on or after February 25, 2005.

Some limitations and special rules apply when the acquiring corporation is a foreign corporation. Always consult with a tax attorney when considering a reorganization of your business.

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