



# New York State Bar Association

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July 6, 2007

The Honorable Eric Solomon  
Assistant Secretary (Tax Policy)  
Department of the Treasury  
Room 3120 MT  
1500 Pennsylvania Avenue, N.W.  
Washington, DC 20220

The Honorable Kevin Brown  
Acting Commissioner  
Internal Revenue Service  
Room 5226  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

Re: Report on Disqualified Investment Corporations as  
Defined in Section 355(g)

Dear Assistant Secretary Solomon and Acting Commissioner Brown:

I am pleased to enclose the New York State Bar Association Tax Section's Report No. 1131, addressing issues raised by section 355(g), added to the Internal Revenue Code by the Tax Increase Prevention and Reconciliation Act of 2005. Generally, section 355(g) provides that section 355 will not apply to a transaction in which a shareholder increases its interest to fifty percent or more in either the distributing or controlled corporation if either corporation is a "disqualified investment corporation". A corporation is a "disqualified investment corporation" if the relative gross fair market value of its investment assets exceeds the ratio prescribed in the statute.

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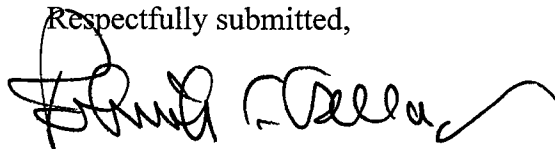
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The enclosed report addresses certain interpretative issues raised by the statutory language. Several of our recommendations relate to the definition of investment assets and are intended to help taxpayers and the Internal Revenue Service consistently apply the calculations required by the statute. Other recommendations relate to the treatment of lower tier entities and the interaction of section 355(g) with other requirements of section 355.

We appreciate your consideration of our recommendations and comments. We would be pleased to discuss these matters with you further or provide any other assistance that you would find helpful.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Patrick C. Gallagher", with a long, sweeping flourish at the end.

Patrick C. Gallagher  
Chair

(Enclosure)

cc:

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