

Proposed Spin-Off Regulations Withdrawn After Enduring a Barrage of Bar Association Bullets



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In a [terse notice](#) released on September 29, the IRS and Treasury Department announced that they would withdraw the controversial proposed regulations governing spin-offs, split-offs and reorganizations that were released earlier this year.

The withdrawal of the proposed regulations was not unexpected and [had been previewed by Treasury officials](#) back in May. [As discussed previously in Brass Tax](#), these proposed regulations received significant criticism—rightly, in our view—from the corporate tax bar, which described them as overbroad and overly rigid. The IRS and Treasury directly cited this criticism as the reason for withdrawing the regulations.

The proposed regulations would have significantly restricted taxpayers' ability to enter into tax-free transactions involving multi-stage spin-off and split-off transactions, transactions in which the distributed company assumes debt from its parent, and debt-for-debt and debt-for-equity exchanges facilitated by an investment bank or similar financial institution. Those substantive restrictions were paired with an extensive set of compliance standards for tax-free transactions, imposing new disclosure and documentation requirements not only for the kinds of complex separation transactions described above, but also for much more straightforward spin-off transactions and (apparently) even acquisitive reorganization transactions, such as corporate mergers.

Both the substantive and procedural proposed regulations were withdrawn by the September 29 notice. Additionally, on the same day, the IRS issued [Revenue Procedure 2025-30](#), effectively repealing [guidance that was issued last year](#) for taxpayers seeking private letter rulings on spin-off transactions and reinstating the guidance originally provided in [2017](#) and [2018](#).

The withdrawal of these proposed regulations still leaves a number of open questions regarding the IRS's posture toward spin-offs, especially transactions entailing more complex features. While the proposed regulations' approach to more sophisticated spin-off deals was widely viewed as too restrictive, even many of their critics acknowledged the desirability of (more reasonable) guidance in a few specific areas relating to those transactions. It is possible that the IRS may follow up with narrower guidance targeting those specific areas, but so far there is no indication as to if, or when, that may occur.

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