Case Study: Zayo Taxable Spinoff & REIT Conversion

Transaction Overview

Zayo is reported to have requested a private letter ruling (a PLR) in July to confirm that its revenues from dark and lit fiber constitute good REIT income, laying pipe for a REIT conversion by a separate company in the fiber business.

In November, Zayo announced its plan to separate into two public companies by way of a taxable spin-off of EnterpriseCo in 2019.

- A taxable spin-off is required to set up a REIT conversion since each party to a tax-free spin-off is generally barred from electing REIT status for 10 years after the spin-off.
- Zayo may be able to use its prior year net operating losses to shelter its corporate level gain on the taxable spin-off.
- Zayo shareholders will be treated as receiving a taxable distribution with respect to their stock, which may subject some or all shareholders to tax.

With the reduction in corporate tax to 21%, taxable spinoffs may have broader appeal for REIT-eligible corporations.

Transaction Structure