Internal Revenue Service

Department of the Treasury

Index Number: 332.00-00, 7701.00

Washington, DC 20224

Number: **200035031**
Release Date: 9/1/2000

Person to Contact:

Telephone Number:

Refer Reply To:
CC:DOM:CORP:1- PLR-102962-00
Date:
June 6, 2000

LEGEND:
Foreign Parent =

US Parent =

Holding =

Sub A =

Sub B =

Country Z =

State W =

Business X =

Business Y =

Dear :

We respond to your letter dated January 31, 2000, requesting rulings concerning the federal income tax consequences of a proposed transaction. The information submitted for consideration is summarized below.

Foreign Parent is a Country Z corporation that wholly owns US Parent, a State W corporation that is the common parent of an affiliated group of corporations that files a consolidated United States federal income tax return (the “Parent Group”). The Parent Group includes Holding and its subsidiaries. Holding is a holding company incorporated in State W. Holding wholly owns Sub A and Sub B, which are also State W corporations. Sub A engages, through its subsidiaries, in Business X. Sub B engages, through its subsidiaries, in Business Y.

For what the taxpayer represents are valid business reasons, the following

transaction is proposed:

(1) Under State W law, US Parent will cause Holding to merge with and into, or otherwise convert into, a single member limited liability company (the "LLC"), which will be wholly owned by US Parent and which will succeed to all of Holding's assets, operations and liabilities (the "Conversion").

(2) After the Conversion, the LLC will distribute 100 percent of the stock of Sub B to US Parent.

The taxpayer has made the following representations about the proposed transaction:

(a) US Parent, on the date of adoption of the plan for merging or otherwise converting Holding into LLC (the "Conversion Plan"), and at all times thereafter until the Conversion is completed, will own 100 percent of the single outstanding class of Holding stock.

(b) No shares of Holding have been redeemed during the three years preceding the adoption of the Conversion Plan.

(c) The LLC will not elect or claim to be treated as a corporation for federal income tax purposes.

(d) The Conversion will take place within a single taxable year.

(e) Effective as of the effective date of the Conversion, the corporate existence of Holding will cease under applicable local law.

(f) Holding (as a corporation) will not retain any assets following the Conversion.

(g) Holding will not have acquired assets in any nontaxable transaction except for (i) acquisitions of assets in connection with transactions qualifying under section 351 of the Internal Revenue Code ("Code"), and (ii) acquisitions occurring more than three years prior to the date of adoption of the Conversion Plan.

(h) No assets of Holding have been, or will be, disposed of by either Holding or US Parent since the formation of Holding, except for dispositions in the ordinary course of business, and (ii) dispositions occurring more than three years prior to the date of adoption of the Conversion Plan.

(i) The Conversion will not be preceded by or followed by the reincorporation in, or transfer or sale to, a recipient corporation of any of the businesses or assets of Holding, if persons holding, directly or indirectly (as determined under section 318(a) as modified by section 304(c)(3)), more than twenty percent in value of the Holding stock also hold, directly or indirectly, more than twenty percent in value of the stock of the recipient corporation.

(j) Prior to the adoption of the Conversion Plan, no assets of Holding will have been distributed in kind, transferred or sold to US Parent, except for (i) transactions occurring in the normal course of business; and (ii) transactions occurring more than three years prior to the date of adoption of the Conversion Plan.

(k) Holding will report all earned income represented by assets that will be deemed distributed to US Parent , such as receivables being reported on a cash basis, unfinished contracts, commissions due, etc.

(l) The fair market value of the assets of Holding will exceed its liabilities, both at the date of adoption of the Conversion Plan and immediately prior to the time the Conversion occurs.

(m) At the time of the Conversion, there will be no intercorporate debt existing between US Parent and Holding except for temporary intercompany accounts that arise in the ordinary course of business and are usually settled within one year, and no such intercorporate debt will have been canceled, forgiven or discounted, except for transactions that occurred more than three years prior to the date of adoption of the Conversion Plan.

(n) Neither US Parent nor Holding is an organization that is exempt from federal income tax under section 501 or another provision of the Code.

(o) Each party to the proposed transactions will pay its own expenses.

Based solely on the information submitted and the representations set forth above, we rule as follows:

(1) The Conversion will be treated as a distribution by Holding to US Parent in complete liquidation under section 332(a) and section 1.332-2(d) of the Income Tax Regulations.

(2) No income, gain, or loss will be recognized by US Parent on the deemed receipt of the assets and liabilities of Holding pursuant to the

Conversion (§ 332(a) and § 1.332-7).

(3) No income, gain, or loss will be recognized by Holding on the deemed distribution of its assets and liabilities to US Parent in the Conversion (§ 337(a)).

(4). The basis of each asset of Holding deemed received by US Parent pursuant to the Conversion will equal the basis of that asset in the hands of Holding immediately before the Conversion (§ 334(b)(1)).

(5) The holding period of each asset of Holding deemed received by US Parent in the Conversion will include the period during which US Parent held such asset, provided the asset is a capital asset as defined in section 1221 or property described in section 1231 in the hands of Holding (§ 1223(1)).

(6) The transfer by LLC of the Sub B stock to US Parent will be disregarded for federal income tax purposes, and no gain or loss will be recognized by LLC or US Parent upon such transfer (§§ 301.7701-3(b)(1)(ii) and 301.7701-2(a)).

We express no opinion concerning the federal income tax treatment of the transactions under other provisions of the Code or Regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions that are not specifically covered by the above rulings.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the Federal Income Tax Returns of the taxpayers involved for the taxable year in which the transaction covered by this supplemental letter ruling was consummated.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,
Assistant Chief Counsel (Corporate)
By: Mark S. Jennings
Acting Chief, Branch 1