Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:2 - PLR-142966-01
Date:
October 19, 2001

X =

Sub1 =

Sub2 =

D1 =
D2 =
D3 =
D4 =
D5 =
D6 =

Dear :

This letter responds to your letter dated August 3, 2001, requesting that a transfer of the stock of a subchapter S subsidiary (QSub) from a first-tier subsidiary to the parent be disregarded for federal income tax purposes.

The information submitted states that X was incorporated on D1 and elected to be an S corporation effective D2. Sub1 is a wholly-owned corporation of X that was incorporated on D3. Sub2 is a wholly-owned corporation of Sub1 that was incorporated on D4. X filed QSub elections for Sub1 and Sub2 effective D5. On D6, X plans to cause Sub1 to distribute the stock of Sub2 to X.

Section 1361(b)(3)(A) provides that a QSub shall not be treated as a separate corporation, and all assets, liabilities, and items of income, deduction, and credit of a QSub shall be treated as assets, liabilities, and such items (as the case may be) of the S corporation.

Section 1361(b)(3)(B) defines a QSub as a domestic corporation, which is not an ineligible corporation, in which 100 percent of the stock of the corporation is owned by an S corporation, and the S corporation elects to treat the corporation as a QSub.

Section 1.1361-2(b) of the Income Tax Regulations provides that for purposes of

satisfying the 100 percent stock ownership requirement in § 1361(b)(3)(B), stock of a corporation is treated as held by an S corporation if the S corporation is the owner of that stock for Federal income tax purposes.

In § 1.1361-5(a)(4) Example 3, X, an S corporation, owns 100 percent of the stock of Y, and Y owns 100 percent of the stock of Z. QSub elections are in effect with respect to both Y and Z. Y transfers all of its Z stock to X. The example concludes that the transfer of Z stock does not terminate Z's QSub election. The example also concludes that because the stock of Z is disregarded for all other Federal tax purposes, no gain is recognized under § 311.

Based solely on the facts and the representations submitted, we conclude that the distribution of the stock of Sub2 from Sub1 to X will be disregarded for federal tax purposes.

Except as specifically set forth above, no opinion is expressed concerning the federal tax consequences of the facts described above under any other provision of the Code. Specifically, no opinion is expressed concerning whether X is a valid S corporation or whether Sub1 or Sub2 are valid QSubs for federal tax purposes.

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

Pursuant to a power of attorney on file with this office, a copy of this letter is being sent to X's authorized representative.

Sincerely yours,
MATTHEW LAY
Senior Technician Reviewer,
Branch 2
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures: 2
Copy of this letter