Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:CORP:BO3
PLR-104830-06

In Re:

Date:
September 27, 2006

Parent =

Holding =

Corporation =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

LP =

State X =

State Y =

m =

n =

o =

Year 1 =

Year 2 =

Dear :

We respond to your authorized representative's letter dated January 9, 2006, submitted on behalf of Parent, requesting rulings concerning the Federal income tax consequences of the transaction described below. Additional information was submitted in letters dated May 15, June 7, June 12, September 11, and September 19, 2006. The information submitted is summarized below.

Parent is a publicly traded State X corporation and the common parent of a consolidated group (the Group). Parent owns all the outstanding common stock of a State X holding corporation (Holding). Holding currently owns more than 80 percent of the outstanding common stock of a State Y corporation (Corporation). Corporation owns all of the outstanding voting and nonvoting common stock of Sub 1 and all of the outstanding common stock of Sub 2. Sub 1 currently owns the remaining common stock of its parent (Corporation) and m percent of the outstanding common stock of Sub 3. Sub 2 owns the remaining outstanding common stock of Sub 3. Sub 3 owns all of the outstanding stock of Sub 4.

Sub 2 owns the general partnership interest in LP, a State X limited partnership. Sub 4 owns the limited partnership interest in LP. Sub 2, Sub 4, and LP own all the issued and outstanding stock of Sub 5. Sub 2 owns n percent of the outstanding common stock of Sub 5 and Sub 4 owns o percent of the outstanding common stock of

Sub 5. LP owns the remaining outstanding common stock of Sub 5 and all of Sub 5's outstanding preferred stock.

Until Year 1, LP owned all the outstanding stock of Sub 5 (Sub 2 and Sub 4 having created LP prior to Year 1 for the purpose of LP's acquiring Sub 5 stock), but, during Year 1, Sub 5 issued to LP both additional common stock representing 80 percent of the total common stock then outstanding and the preferred stock. LP in turn distributed the additional common stock to Sub 2 and Sub 4, resulting in Sub 5's becoming a member of the Parent affiliated group. Thus, Sub 2, Sub 4, and Sub 5 are affiliated for purposes of §1504 of the Internal Revenue Code. The Sub 5 stock is LP's only asset. LP had financed part of its acquisition of Sub 5 stock by borrowing funds from Sub 3 (the “acquisition indebtedness”). LP has the same tax basis per share in each share of Sub 5 common stock it holds and the same basis per share in each share of Sub 5 preferred stock it holds. Sub 2 and Sub 4 together have a total tax basis in their LP interests that equals the total tax basis that LP has in its own assets.

The steps of the proposed transaction are as follows:

(1) Sub 3 will distribute property to its two shareholders, Sub 1 and Sub 2, with respect to stock. To Sub 1, it will distribute the acquisition indebtedness owed by LP to Sub 3. To Sub 2, it will distribute additional shares of its common stock. The relative values of the different types of property will be approximately the same as the relative share ownership of each shareholder in Sub 3 immediately before the distributions. Sub 2 will increase its proportionate interest relative to Sub 1 in the assets and the earnings and profits of Sub 3 as a result of its receipt of the additional shares.

(2) Sub 2 and Sub 4 will sell their LP interests to Sub 3 for cash and relief from the acquisition indebtedness that the partnership will owe Sub 1. Each of Sub 2 and Sub 4 will receive consideration greater than its basis in its LP interest. In the sale, each of Sub 2 and Sub 4 will account for relief from the LP acquisition indebtedness in the same manner as each accounted for the incurrence of the acquisition indebtedness.

(3) Parent may cause Sub 5 and Sub 4 to combine, with Sub 4 surviving, in future Year 2 or later.

Parent represents that none of the steps of the proposed transaction will cause Sub 2, Sub 3, or Sub 4 to cease to be members of the same consolidated group.

Based solely on the information submitted and on the representations made, we rule as follows:

(1) Sub 3's distribution to each of its shareholders will be a distribution to which §301 applies (§§301 and 305(b)(2)). Each distribution will be an intercompany distribution to which §1.1502-13(f)(2) of the Income Tax Regulations applies. Neither Sub 1 nor Sub 2 will include the amount of the distribution in its gross income. Each will reduce its stock basis in Sub 3 by a corresponding amount. Each will have a fair market value basis in the property received (§301(d)). Sub 3 will recognize gain or loss on the distribution of the acquisition indebtedness (but not the distribution of its stock) under §311(b) or its principles. Sub 3 will account for the gain or loss under the matching and acceleration rules of §1.1502-13.

(2) Under Rev. Rul. 99-6, 1999-1 C.B. 432, LP terminates under §708(b)(1)(A) when Sub 3 purchases all of Sub 2's and Sub 4's interests in LP because LP will have a single owner, Sub 3. Both Sub 2 and Sub 4, pursuant to Rev. Rul. 99-6, will treat the transaction as a sale of their entire partnership interests in LP and will determine income, gain, and/or loss under §§741 and 751(a).

(3) Under Rev. Rul. 99-6, LP will be deemed to make a liquidating distribution of all its assets (the stock of Sub 5) to Sub 2 and Sub 4. Following this distribution, Sub 3 will be treated as acquiring the assets (the stock of Sub 5) deemed to have been distributed to Sub 2 and Sub 4. Sub 3 will have a cost basis in the stock of Sub 5 equal to the total purchase price under §1012.

(4) The sales by Sub 2 and Sub 4 of their interests in LP to Sub 3 will be intercompany transactions as described in §1.1502-13(b)(1).

(5) Sub 2's and Sub 4's intercompany items will be the gains realized from the sales of their partnership interests in LP (§1.1502-13(b)(2)). Each such gain will equal in amount the difference between the consideration received (i.e., the cash received plus the relief from a share of the acquisition indebtedness that LP will owe Sub 1 immediately before the sale) and that partner's basis in its interest in LP.

(6) The gains from the sales of Sub 2's and Sub 4's partnership interests (the intercompany items) will be accounted for under the matching rule of §1.1502-13(c). Sub 3's corresponding items will be its items with respect to the Sub 5 stock that Sub 3 is treated as acquiring in the manner described in Ruling (3) above.

(7) Sub 3's recomputed corresponding items will be based on the respective bases that Sub 2 and Sub 4 would have had in the Sub 5 stock had that stock been received in a liquidating distribution to which §732(b) applied.

(8) If Sub 3 disposes of less than all of the shares of Sub 5 stock, it will be considered as having disposed of, pro rata, the Sub 5 shares deemed purchased from Sub 2 and Sub 4.

Except as specifically set forth above, we express no opinion concerning the tax consequences of the proposed transaction under any other provision of the Code and regulations, or about the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transaction. Specifically, no opinion is expressed concerning whether, in the event that Sub 5 and Sub 4 do combine in the future, the matching rule will continue to apply to the intercompany items of Sub 2 and Sub 4 and whether shares of Sub 4 stock would constitute a successor asset to the shares of Sub 5 stock.

The rulings contained in this letter are based upon the facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This Office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process. See sections 11.04 and 11.05 of Rev. Proc. 2006-1 I.R.B. 1, 49, which discuss in greater detail the revocation or modification of ruling letters. However, when the criteria in section 11.06 of Rev. Proc. 2006-1, 2006-1 I.R.B. at 50, are satisfied, a ruling is not revoked or modified retroactively except in rare or unusual circumstances.

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their returns that provides the date and control number of the letter ruling.

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

Sincerely,

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Filiz A. Serbes
Chief, Branch 3
Office of Associate Chief Counsel (Corporate)