201111016

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEC 20 2010

Uniform Issue List: 401.00-00

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Company A	=	******** ********
Company B	=	******** ********
Company C	=	******** ********
Company D	=	********
Investor Q	=	********
State A	=	********
Year 1	=	********
Date E	=	********
Date F	=	********
Amount X	=	********
Amount Y	=	********

Dear ********:

This is in response to your request for a ruling submitted by your authorized representative dated January 27, 2010, in which you request rulings regarding certain U.S. federal income tax consequences of the proposed demutualization and liquidation of Company A. Additional information was submitted on April 28, 2010, July 9, 2010, August 25, 2010 and on November 23, 2010. The relevant facts are described below:

Company A is a State A mutual holding company. It is the common parent of an affiliated group of corporations that files a consolidated federal income tax return.

Company B is a State A stock holding company. It is a wholly owned subsidiary of Company A.

Company C is a State A life insurance company. It was a mutual company until Year 1, when it converted to a stock company within a mutual holding company structure (the "Conversion"). Since the Conversion, Company C has been a wholly owned direct subsidiary of Company B. For U.S. federal income tax purposes, Company A qualifies as a life insurance company under section 816 of the Internal Revenue Code (the "Code").

As a mutual holding company, Company A cannot issue common or preferred stock. Instead, policyholders of Company C, by reason of their ownership of Company C policies, become members of Company A. As Company A members, the Company C policyholders have certain rights under State A law. These rights entitle the Company A members to vote for members of the Board of Directors of Company A and to receive assets in the event of the demutualization, dissolution, or liquidation of Company A.

A major part of Company C's business involves the sale of annuity contracts that are held as part of tax-qualified retirement plans described in sections 401(a), 403(a), 403(b) of the Code, the sale of annuities as part of individual retirement accounts or individual retirement annuities described in sections 408 and 408A and the sale of annuities in connection with certain deferred compensation plans established by governmental employers.

On Date E, Company A and Company B entered into an agreement with Company D contemplating Company A's sale of Company B to Investor Q, and the concomitant demutualization and liquidation of Company A (the "Transaction"). Company A, Company B, and Investor Q executed a formal purchase and sale contract, as well as several ancillary agreements, on Date F.

Under the terms of the Transaction, Investor Q will provide Company A with Amount X in cash, less any claims against Company A determined to be valid that are not otherwise paid or provided for, to be distributed to the members of Company A. Accordingly, after the closing of the Transaction, the holders of policies in Company C will be eligible to receive consideration in their capacity as members of Company A. It is anticipated that each eligible member will receive consideration valued at approximately Amount Y in exchange for such policyholder's membership interest in Company A.

Generally policyholders will be paid the value of the consideration in cash. Policyholders that own the following types of policies ("Tax-Qualified Retirement Contracts"), however, will generally be paid in the form of enhancements to the benefits in their Tax-Qualified Retirement Contracts ("Policy Credits"), where the contract is not held through a trust (referred to herein as a "non-trusteed" contract), including mainly the following types of contracts:

1. an individual annuity contract or an individual life insurance policy issued directly to a plan participant pursuant to a plan qualified under section 401(a) or section 403(a) of the Code,

2. an group annuity contract issued to an employer, designed to fund benefits under a retirement plan sponsored by the employer that qualifies under section 401(a) or section 403(a) of the Code,

3. an annuity contract that qualifies for the treatment described in section 403(b) of the Code,

4. an individual retirement annuity within the meaning of section 408(b) of the Code, and

5. an annuity contract, represented to be one described in section 401(f) of the Code, issued in connection with an eligible deferred compensation plan established by a state or local governmental employer described in section 457(e)(1)(A) of the Code.

The Policy Credits will be in the form of an increase in cash value, account value, dividend accumulations, or benefit payments, as appropriate, depending on the respective contracts in force on the date the consideration is distributed.

Law and Analysis

Section 72(a) of the Code generally provides that gross income includes any amount received as an annuity under an annuity, endowment, or life insurance contract. Section 72(e)(2) of the Code provides that, for purposes of section 72, any amount received which is in the nature of a dividend or similar distribution shall be treated as an amount not received as an annuity.

Section 72(e)(2) of the Code provides that any amount which is received under an annuity, endowment, or life insurance contract and is not received as an annuity, (A) if received on or after the annuity starting date, shall be included in gross income, and (B) if received before the annuity starting date, shall be included in gross income to the extent allocable to income on the contract and shall not be included in gross income to the extent allocable to investment on the contract.

Section 72(e)(5) of the Code provides, in part, that with certain exceptions, an amount distributed from a trust described in section 401(a), which is exempt from tax under section 501(a), or is received from a contract purchased by a trust described in section 401(a), purchased as part of a plan described in section 403(a) or described in section 403(b) shall be included in gross income but only to the extent that it exceeds the investment in the contract.

Section 72(e)(6) of the Code provides that the investment in the contract, as of any date, is the aggregate amount of premiums or other consideration paid for the contract as of such date, minus the aggregate amount received under the contract before such date to the extent such amount was excludable from income.

Section 72(t) of the Code provides, in part that, if any taxpayer receives any amount from a qualified retirement plan (as defined in section 4974(c)) prior to certain dates or the occurrence of certain events specified in section 72(t)(2) the taxpayer's tax for the taxable year shall be increased by an amount equal to 10 percent of the portion of such amount which is includible in gross income.

Section 402(a) of the Code provides, in pertinent part, that any amount actually distributed to any distributee by any employees' trust described in section 401(a) which is exempt from tax under section 501(a) shall be taxable to the distributee, in the taxable year of the distributee in which distributed, under section 72 (relating to annuities).

Section 403(b)(1) of the Code provides, generally, that amounts contributed by certain tax-exempt employers to an annuity contract purchased from an insurance company by such an employer for an employee shall be excluded from the gross income of the employee for the taxable year of the contribution and that the amount actually distributed to any distributee under such contract shall be taxable to such distributee in the year distributed under section 72. Section 403(b)(1) of the Code also imposes a limit on the maximum amount which may be contributed to a tax-sheltered annuity described in section 403(b) on behalf of an employee in any taxable year. Section 403(b)(10) of the Code provides that the provisions of section 403(b)(1) will not apply to an annuity unless requirements similar to the minimum distribution requirements of section 401(a)(9) are met with respect to such annuity.

Section 403(b)(11) of the Code provides that the provisions of section 403(b)(1) will not apply to an annuity unless, under the annuity, distributions attributable to contributions made pursuant to a salary reduction agreement may be paid only when the employee attains age 59 and ½, separates from service, dies, becomes disabled, or in the event of hardship. Distributions in the event of hardship may not include income attributable to salary reduction contributions. The distribution limitations of section 403(b)(11) of the Code do not apply to distributions attributable to assets held in the tax-sheltered annuity arrangement described in section 403(b) as of the close of the last year beginning before January 1, 1989. P.L. 99-514 ("the Tax Reform Act of

1986"), section 1123(e)(2), as amended by P.L. 100-647 ("TAMRA") section 1011A(c)(11).

Section 408(b) of the Code defines an individual retirement annuity ("IRA") as an annuity or endowment contract which is issued by an insurance company and which meets the requirements of section 408(b). Section 408(b)(3) of the Code imposes requirements similar to the distribution requirements of section 401(a)(9) on distributions of the entire interest of the contract owner. Section 219 of the Code permits an individual taxpayer to deduct from gross income amounts contributed to an IRA, subject to the maximum annual deduction limitations specified in section 219(b). Sections 402(c) and 408(d)(3) of the Code, relating to rollover contributions, permit an individual taxpayer to purchase an IRS annuity using funds distributed from other plans, subject to certain requirements relating to the nature and the amount of the distribution. Section 408(d) provides, in general, that any amount paid or distributed out of an IRA is included in gross income by the payee or distributee, as the case may be, in the manner provided under section 72.

Section 457 of the Code provides rules for the deferral of compensation by an individual participating in an eligible deferred compensation plan as defined in section 457(b).

Section 457(a)(1)(A) of the Code provides that in the case of a participant in an eligible governmental deferred compensation plan, any amount of compensation deferred under the plan and any income attributable to the amounts so deferred shall be includible in gross income only for the taxable year in which such compensation or other income is paid to the participant or beneficiary.

Section 457(b)(5) of the Code prescribes that an eligible deferred compensation plan must meet the distribution requirements of section 457(d).

Section 457(d) of the Code provides that a plan will not meet the requirements of section 457(b)(5) unless, under the plan, amounts will not be made available to participants or beneficiaries earlier than the year in which the participant reaches age 70 and ½, separates from employment with the employer, or faces an unforeseeable emergency.

Section 457(e)(1)(A) of the Code defines an eligible employer to be a state, political subdivision of a state, any agency or instrumentality of a state or political subdivision of a state.

Section 457(g) of the Code provides that a plan maintained by an eligible governmental employer shall not be treated as an eligible deferred compensation plan unless all assets and rights purchased with such deferred compensation amounts and all income attributable to such amounts, property, or rights of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Section 457(g)(3) of the Code provides that custodial accounts and annuity contracts described in section 401(f) shall be treated as trusts under rules similar to the rules under section 401(f) which means such accounts and contracts would be treated as organizations exempt from taxation under section 501(a).

Section 4973 of the Code imposes an excise tax equal to 6 percent of the amount of any excess contribution to an IRA. This 6 percent tax applies for each taxable year of the IRA owner during which such excess contributions remain in such IRA, determined as of the end of the taxable year. An excess contribution under section 4973 is defined as a contribution in excess of the maximum amount that may be contributed to an IRA.

Section 3405 of the Code requires the payor of a "designated distribution," within the meaning of section 3405(e)(1), to withhold certain amounts from such distributions. In general, absent an election under section 3405(b)(2) made by a recipient, section 3405 requires the payor to withhold on distributions from employer deferred compensation plans, IRAs, and commercial annuities. Section 3405(c) of the Code provides that in the case of an "eligible rollover distribution," as defined in section 3405(c)(3), the payor of such distribution shall withhold from such distribution an amount equal to 20 percent of such distribution. Section 3405(e)(1)(B)(ii) of the Code provides that the term "designated distribution" does not include the portion of any distribution which it is reasonable to believe is not includible in gross income.

Section 4979 of the Code imposes an excise tax equal to 10 percent of the excess aggregate contributions under a tax-sheltered annuity plan described in section 403(b) for a taxable year. Excess aggregate contributions under section 4979 of the Code are defined, in part, as the sum of the employer matching contributions and employee contributions, actually made, on behalf of highly compensated employees, within the meaning of section 414(q), for a plan year in excess of the maximum amount of such contributions permitted under the actual contribution percentage test of section 401(m)(2) for such plan year.

In pertinent part, Rev. Rul. 2003-19, 2003-1 C.B. 468, provides guidance for transactions in which a mutual life insurance company demutualizes and converts to a stock life insurance company, and the holders of life and annuity contracts issued by the mutual company issued by the mutual company surrender their membership interests for consideration made available as part of the transaction. Holders of contracts that are covered by section 403(b) or section 408 of the Code, or that are part of a qualified plan within the meaning of section 401(a), receive policy credits in exchange for their membership interests.

Rev. Rul. 2003-19 further provides that demutualization has:

> ...no effect on each life insurance or annuity contract that is part of a qualified plan within the meaning of section 401(a) or that meets the requirements of section 403(b) or section 408(b) for purposes of sections 72(e), 401, 402, 403,

> 408, and 408A. These transactions do not result in a distribution in violation of section 403(b) or section 408(b), a distribution from or a contribution to any of these policies, plans, or arrangements for federal income tax purposes. Finally [demutualization] does not result in: (a) any gross income to the employee or the beneficiary as a distribution from a qualified retirement plan under section 72, prior to an actual receipt of some amount therefrom by such employee or beneficiary; (b) any 10% additional tax under section 72(t) for premature distributions from a qualified retirement plan; (c) any 6% or 10% excise tax under sections 4973 or 4979, respectively, for excess contributions to certain qualified retirement plans; or (d) a designated distribution under section 3405(e)(1)(A) that is subject to withholding under section 3405(b) or (c).

Rev. Rul. 2003-19 does not specifically address the issues of the planned demutualization of mutual holding company. Nevertheless, we conclude the holding in Rev. Rul. 2003-19 should apply equally to the facts of this case. The Transaction will employ Policy Credits as the consideration paid to the non-trusteed Tax-Qualified Retirement Contracts. In so doing, the payment of consideration in the Transaction is effected without the actual distribution of qualified plan assets to plan participants.

Conclusions

Based solely on the information and representations submitted, it is held as follows:

1. Neither the addition of Policy Credits to Company C contracts, nor the right thereto as part of the Transaction will constitute a distribution in violation of section 403(a), section 403(b)(11), section 408(e), or section 457(d) of the Code, or otherwise disqualify a contract under section 403(b), a contract under section 408 or 408A, or turn a contract under a governmental section 457(b) plan into an ineligible deferred compensation plan described in section 457(f). In addition, in the case of each life insurance or annuity contract that is part of a qualified plan within the meaning of section 401(a) of the Code or that meets the requirements of section 403(a), section 403(b), section 408 or 408A, or section 457(b) of a governmental employer, neither the addition of Policy Credits, nor the right thereto, will have any effect on such contract for purposes of sections 72(e)(5), 401, 402, 403, 408, 408A, and 457(b).

2. The addition of Policy Credits to Company C contracts as part of the Transaction will not result in a distribution thereunder, nor a contribution thereto, for U.S. federal income tax purposes and, thus, will not result in: (a) any gross income to the employee or the beneficiary of a Company C contract as a distribution from a qualified retirement plan under section 72 of the Code , prior to an actual receipt of some amount therefrom by such employee or beneficiary; (b) any 10 percent additional tax under section 72(t) for premature distributions from a qualified retirement plan; (c) any 6 percent or 10

percent excise tax under sections 4973 or 4979, respectively, for excess contributions to certain qualified retirement plans; or (d) any designated distribution under section 3405(e)(1)(A) that is subject to withholding under section 3405(b) or section 3405(c).

3. For purposes of determining the investment in the contract under section 72 of the Code for a Company C contract, a Policy Credit will not be taken into account.

4. For minimum distribution requirements under section 401(a)(9), sections 403(a) and 404(a)(2), section 403(b)(10), section 408(a)(6), section 408(b)(3), or section 457(d)(2) of the Code, a Policy Credit will constitute investment earnings attributable to the year in which it is added to the account value for a Company C contract.

5. For purposes of section 403(b)(11) of the Code restrictions on distributions attributable to contributions under salary reduction arrangements and the income thereon, a pro rata portion of a Policy Credit added to a contract qualified under section 403(b) to which such contributions have been made constitutes earnings attributable to such contributions for the year in which such Policy Credit is added.

This ruling is directed only to the taxpayers who requested it. Any reference above to contracts held under section 457(b) of the Code relates only to such contracts held under a governmental section 457(b) plan. In addition, we express no opinion regarding the tax treatment of contracts held under section 457(b) of the Code sponsored by a tax-exempt employer or under a section 457(f) plan. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Pursuant to the powers of attorney on file with this office, copies of this letter are being sent to your authorized representatives. A copy of this letter must be attached to any income tax return to which it is relevant. (Alternatively, for a return(s) filed electronically this requirement is satisfied by attaching a statement to the return(s) that provides the date and control number of the letter ruling.)

The rulings contained in this letter are based upon information submitted by the taxpayers and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

No opinion is expressed as to the tax treatment of the transaction described herein under the provisions of any other section of either the Code or regulations, which may be applicable thereto.

If you wish to inquire about this ruling, please contact ******** at (***) ***-****. Please address all correspondence to ********.

201111016

Copies of this letter have been sent to your authorized representatives in accordance with a Power of Attorney on file in this office.

Sincerely yours,

Donzell Littlejohn, Manager
Employee Plans Technical Group 2

Enclosures:
Deleted copy of ruling letter
Notice of Intention to Disclose