Internal Revenue Service

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Department of the Treasury
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Date:
April 07, 2015

Legend

Parent =

HoldCo =

HoldCo DE =

Sub 1 =

Sub 2 =

PS 1 =

PS 2 =

a =

b =

c =

d =

Year 1 =

Year 2 =

Dear :

This letter responds to your letter dated June 10, 2014, submitted by your authorized representatives, requesting rulings on certain federal income tax consequences of a proposed transaction (the "Proposed Transaction," as described below). The material information submitted in that letter and in later correspondence is summarized below.

The rulings contained in this letter are based upon information 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.

Facts

Parent is the common parent of an affiliated group of corporations (the "Parent Group") that join in the filing of a consolidated federal income tax return. Parent owns all of the stock of HoldCo. HoldCo, in turn, owns the sole membership interest in HoldCo DE, a limited liability company disregarded from HoldCo for federal income tax purposes, and an a% interest in PS 1, a limited liability company treated as a partnership for federal income tax purposes. HoldCo DE owns all of the stock of Sub 1, and Sub 1 owns the remaining b% interest in PS 1. HoldCo and Sub 1, among other entities not relevant here, are members of the Parent Group.

PS 1 holds cash (and cash equivalents), all of the stock of Sub 2, and a c% (greater than 50%) interest in PS 2, a limited liability company treated as a partnership for federal income tax purposes. The remaining d% interest in PS 2 is owned by an unrelated party. PS 1 has no liabilities. PS 2, directly and indirectly, owns all of the interests in multiple entities created under state law, each of which is an entity

disregarded from PS 2 for federal income tax purposes. PS 2 has various liabilities owed to affiliates and unrelated parties.

With respect to each of PS 1 and PS 2 (but subject to section 704(c)), all items of income, gain, loss, deduction and credit, all profits and losses, and all distributions are shared in the same ratio as each partner's respective ownership percentage in PS 1 and PS 2, as applicable. Elections under section 754 have always been in effect for both PS 1 and PS 2 (including all successor partnerships resulting from partnership terminations under section 708(b)(1)(B)).

With respect to PS 1, Sub 1's tax basis in its interest in PS 1 is equal to its allocable share of PS 1's tax basis in its assets. By contrast, HoldCo's tax basis in its interest in PS 1 exceeds its allocable share of PS 1's tax basis in its assets as a result of the Prior Intercompany Distributions (described below). However, HoldCo's tax basis in its interest in PS 1 equals its allocable share of PS 1's tax basis in its assets after taking into account the consequences of PS 1's section 754 election (and the resulting section 743(b) adjustments). With respect to PS 2, PS 1's tax basis in its interest in PS 2 is equal to its allocable share of PS 2's tax basis in its assets. (For purposes of this letter ruling, a partner's allocable share of a partnership's tax basis in its assets with respect to the partner's interest in the partnership is determined in accordance with the principles set forth in §1.743-1(d).)

In Year 1 and Year 2, as part of larger restructurings of the Parent Group, interests in PS 1 (currently held by HoldCo) were distributed by members of the Parent Group in intercompany transactions (the "Prior Intercompany Distributions"). Certain of these members realized gains under section 311(b) (the "Prior Intercompany Gains") as a result of the Prior Intercompany Distributions. These Prior Intercompany Gains have been, and continue to be, taken into account under the matching rule of §1.1502-13(c).

Proposed Transaction

The Taxpayer proposes to undertake the following transactions:

(i) Sub 1 will distribute its b% interest in PS 1 to HoldCo DE with respect to its stock (the "Distribution").

(ii) Immediately thereafter, HoldCo DE will distribute this b% interest in PS 1 to HoldCo with respect to its membership interest. This transaction will be disregarded for federal income tax purposes.

Representations

(a) PS 1's assets consist of cash (and cash equivalents), stock of Sub 2, and a c% interest in PS 2. PS 1 has no liabilities.

(b) Sub 1 will not receive cash (or cash equivalents) in an amount that exceeds its tax basis in its b% interest in PS 1 in the deemed liquidating distribution from PS 1.

(c) The Prior Intercompany Gains that have not been previously taken into account under §1.1502-13 are fully reflected in the difference between HoldCo's tax basis in its a% interest in PS 1 and the tax basis that this interest would have, had all members that were parties to the Prior Intercompany Distributions (including all successor persons) been divisions of a single corporation. In addition, as a result of elections under section 754, a portion of the Prior Intercompany Gains that have not been previously taken into account under §1.1502-13 are reflected in section 743(b) adjustments with respect to PS 1's stock of Sub 2 and its interest in PS 2, and with respect to PS 2's interest in its assets. See Rev. Rul. 87-115, 1987-2 C.B. 163 and §1.743-1(h)(1).

(d) All section 743(b) adjustments with respect to PS 1's stock of Sub 2 and its interest in PS 2 and with respect to PS 2's interest in its assets that resulted from the Prior Intercompany Distributions are reflected within the Parent Group, segregated and allocated solely to HoldCo with respect to its indirect ownership of such interests. See Rev. Rul. 87-115, 1987-2 C.B. 163 and §1.743-1(h)(1).

(e) All section 743(b) adjustments with respect to PS 2's interest in its assets that will result from the Distribution will remain within the Parent Group, segregated and allocated solely to HoldCo with respect to its indirect ownership of such interest. See Rev. Rul. 87-115, 1987-2 C.B. 163 and §1.743-1(h)(1).

(f) The Parent Group, PS 1, and PS 2 will maintain appropriate records with respect to all assets that reflect the federal income tax consequences to the Parent Group of the Prior Intercompany Distributions and the Distribution in order to ensure that the Prior Intercompany Gains and any gain or loss resulting from the Distribution will be appropriately accounted for and taken into account under the intercompany transaction regulations.

Rulings

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

(1) PS 1 will terminate as a result of the Distribution because PS 1 will have a single owner, HoldCo. Section 708(b)(1)(A). Under the principles of Rev. Rul. 99-6, 1999-1 C.B. 432, Sub 1 will treat the Distribution as a distribution of its partnership interest in PS 1 to HoldCo and will determine its income, gain, and/or loss under section 311(b) (and its principles pursuant to §1.1502-13(f)(2)(iii)), section 741, and section 751.

(2) Under the principles of Rev. Rul. 99-6, 1999-1 C.B. 432, PS 1 will be deemed to make a liquidating distribution of all of its assets (the cash and cash equivalents, the stock of Sub 2, and the interest in PS 2) to HoldCo and Sub 1. Following this distribution, HoldCo will be treated as acquiring, in a distribution from Sub 1, the assets deemed to be distributed by PS 1 to Sub 1 (Sub 1's distributive share of the cash and cash equivalents, the stock of Sub 2, and the interest in PS 2) in liquidation of Sub 1's interest in PS 1. HoldCo's basis in the assets deemed acquired from Sub 1 will be their fair market value under section 301(d).

(3) HoldCo will not include in its gross income the amount of the distribution it is treated as receiving from Sub 1 (as described in Ruling (2) above) to the extent there is a corresponding negative adjustment under §1.1502-32 in HoldCo's basis in the stock of Sub 1. Section 1.1502-13(f)(2)(ii).

(4) PS 1's deemed distribution of its interest in PS 2 to HoldCo and Sub 1 (as described in Ruling (2) above) will cause PS 2 to terminate. Sections 708(b)(1)(B) and 761(e).

(5) The Distribution will be an intercompany transaction as described in §1.1502-13(b)(1).

(6) Sub 1's income, gain, and/or loss from the Distribution will be its intercompany item (or items). Section 1.1502-13(b)(2). The amount of Sub 1's gain or loss will be the difference between the fair market value of Sub 1's interest in PS 1 and Sub 1's adjusted basis in its interest in PS 1 as determined under section 311(b) (and its principles pursuant to §1.1502-13(f)(2)(iii)) and section 741, and such amount will be considered as gain or loss from the sale of a capital asset, except as provided in section 751.

(7) Sub 1's income, gain, and/or loss from the Distribution (the intercompany item or items) will be accounted for under the matching rule of §1.1502-13(c). Holdco's corresponding items from the Distribution or from property acquired in the Distribution will be: (i) its items with respect to the assets that HoldCo is treated as acquiring from Sub 1 in the manner described in Ruling (2) above; and (ii) its items from PS 2 that reflect any section 743(b) adjustments to the assets of PS 2 resulting from the deemed distributions of the interests in PS 2 (as described in Ruling (2) above) to the extent the section 743(b) adjustments are attributable to HoldCo's acquisition from Sub 1 of the interest in PS 2 (the interest acquired by Sub 1 in the deemed liquidation of PS 1).

(8) Holdco's recomputed corresponding items will be based upon the respective bases that Sub 1 would have had in the assets that HoldCo is treated as acquiring from Sub 1 in the manner described in Ruling (2) above, had these assets been received in a liquidating distribution to which section 732(b) applied.

(9) The Prior Intercompany Gains will not be taken into account as income or gain under the acceleration rule of §1.1502-13(d) as a result of the Distribution.

Caveats

No opinion is expressed or implied about the federal income tax consequences of any other aspect of any transaction or item discussed or referenced in this letter, or the federal income tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings. Specifically, we express no opinion about the federal income tax treatment of the Prior Intercompany Distributions, the existence or amount of any Prior Intercompany Gains, or whether the Prior Intercompany Gains should have been taken into account previously.

Procedural Statements

The rulings in this letter are based upon information and representations submitted by the taxpayer 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.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Internal Revenue 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 return 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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Frances L. Kelly
Senior Counsel, Branch 2
Office of Associate Chief Counsel
(Corporate)

cc: