Internal Revenue Service

Number: **201605004**
Release Date: 1/29/2016

Index Number: 708.00-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:01
PLR-114201-15

Date:
October 19, 2015

Legend

PRS 1 =

PRS 2 =

PRS 3 =

PRS 4 =
PRS 5 =
State =
Date 1 =
Date 2 =
Date 3 =
a =
b =
c =

Dear :

This letter responds to your letter dated April 15, 2015, and subsequent correspondence submitted on behalf of PRS 1 requesting rulings concerning the conversion of PRS 1 and PRS 3.

FACTS

According to the information submitted, PRS 1 is a limited partnership organized under the laws of State on Date 1, PRS 2, through disregarded entities, owned all of the general and limited partnership interests in PRS 1. PRS 1 was classified as a

disregarded entity for federal income tax purposes. PRS 1 owned a a% interest in PRS 3, a State limited partnership.

On Date 2, PRS 4 acquired an interest in PRS 3. Also on Date 2, PRS 4 exchanged its interest in PRS 3 for an interest in PRS 1, causing PRS 3 to become a disregarded entity and PRS 1 to become a partnership for federal income tax purposes. Effectively PRS 3 was converted into PRS 1. On Date 3, PRS 4 sold its b% interest in PRS 1 and PRS 2 sold a c% interest in PRS 1 to PRS 5. The transfer of interests in PRS 1 during the 12-month period was less than 50%.

LAW & ANALYSIS

Section 708 provides that a partnership is considered to be continuing if it is not terminated. A partnership is terminated only if (1) no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership, or (2) within a 12-month period there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits.

Section 1.708-1(b)(1)(ii) of the Income Tax Regulations provides, in part, that a contribution of property to a partnership does not constitute a sale or exchange for purposes of § 708.

Section 721(a) provides that no gain or loss is recognized by a partnership or any of its partners upon the contribution of property to the partnership in exchange for an interest therein.

Rev. Rul. 84-52, 1984-1 C.B. 157, considers the federal income tax consequences of the conversion of a general partnership interest into a limited partnership interest in the same partnership. In Rev. Rul. 84-52, X was formed as a general partnership with equal partners A, B, C, and D. The partners propose to convert the general partnership into a limited partnership, with A and B as limited partners, and C and D as both general partners and limited partners. Each partner's total percent interest in the partnership's profits, losses, and capital will remain the same when the general partnership is converted into a limited partnership. The general partnership's business will continue after the conversion.

Rev. Rul. 84-52 treats the conversion as an exchange under § 721 and holds, in part, that because the business of X will continue after the conversion and because under § 1.708-1(b)(1)(ii), a transaction governed by § 721 is not treated as a sale or exchange for purposes of § 708, X will not be terminated under § 708. Rev. Rul. 84-52 also provides that if the partners' shares of the partnership's liabilities do not change, there will be no change in the adjusted basis of any partner's interest in the partnership.

Rev. Rul. 95-37, 1995-1 C.B. 130, examines the conversion of a domestic partnership into a domestic LLC classified as a partnership for federal tax purposes. Rev. Rul. 95-37 holds that the federal income tax consequences described in Rev. Rul. 84-52 apply to the conversion of a domestic partnership into a domestic LLC that is classified as a partnership for federal tax purposes. The revenue ruling explains that these federal tax consequences are the same whether the resulting LLC is formed in the same state or in a different state than the converting domestic partnership.

Rev. Rul. 95-37 also holds that the taxable year of the converting domestic partnership does not close with respect to all the partners or with respect to any partner and the resulting domestic LLC does not need to obtain a new taxpayer identification number. The revenue ruling further concludes that its holdings apply regardless of the manner in which the conversion is achieved under state law.

CONCLUSION

Based on the representations and the facts submitted, we conclude that PRS 1 will be considered a continuation of the partnership, PRS 3, and there was no termination of the partnership under § 708. Other than with respect to the sale of the partnership interests sold, the conversion of PRS 3 into PRS 1 did not cause the partners in PRS 3 or PRS 1 to recognize gain or loss under §§ 741 or 1001, except as provided in § 752. The holding period of the partners' interests in PRS 1 includes the period of time during which those interests were held as partners in PRS 3. The conversion of PRS 3 into PRS 1 did not cause the taxable year of the partnership to close under § 706. PRS 1 does not need to obtain a new taxpayer identification number. The basis of the assets held by PRS 1 is the same as the basis of the assets in the hands of PRS 3 prior to the conversion. Finally, the conversion PRS 3 into PRS 1 did not result in the assets of the partnership being contributed or distributed to the partners of the partnership.

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 Internal Revenue Code and the regulations thereunder.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, copy of this letter is being sent to PRS 1's authorized representatives.

Sincerely,

David R. Haglund
David R. Haglund
Branch Chief, Branch 1
(Passthroughs & Special Industries)

Enclosures (2)
Copy of this letter
Copy for 6110 purposes