Internal Revenue Service

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Department of the Treasury
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Date:
April 24, 2018

Re:

LEGEND

Taxpayer =

Parent =

Brand =

Year 1 =

Year 2 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Region 1 =

Region 2 =

Franchisee =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

HoldCo 1 =

HoldCo 2 =

HoldCo 3 =

HoldCo 4 =

HoldCo 5 =

HoldCo 6 =

HoldCo 7 =

State A =

Dear :

This is in response to a letter dated October 31, 2017, submitted on behalf of Taxpayer, requesting a letter ruling under § 165 of the Internal Revenue Code (the "Code"). The information submitted for consideration is summarized below.

FACTS

Taxpayer, a State A corporation, is an indirect wholly owned subsidiary of Parent. Parent, a State A corporation, is the common parent of an affiliated group of corporations that file a consolidated U.S. federal income tax return. Parent is also the common parent of a worldwide group of entities. Parent and its related entities sell Brand products. Unless otherwise noted, all of Taxpayer's subsidiaries mentioned in this ruling are foreign subsidiaries treated as corporations for U.S. federal income tax purposes.

In Year 1, one of Parent's subsidiaries entered into a franchise agreement with Franchisee and its subsidiaries to operate Brand stores in Region 1 and Region 2. Sub 1, a wholly-owned subsidiary of Franchisee, operated Brand stores in Region 1. Sub 2, which became a wholly owned subsidiary of Sub 1, operated Brand stores in Region 2.

As part of a strategy to take more direct control of poorly performing Brand stores operated by Franchisee, Taxpayer formed HoldCo 1 on Date 1. Subsequently, HoldCo 1 formed HoldCo 2, which formed HoldCo 3. On Date 2, HoldCo 3 acquired Sub 1.

In anticipation of a new Brand store in Region 2, Taxpayer caused HoldCo 3 to form Sub 3. In Year 2, Taxpayer formed HoldCo 4, which formed HoldCo 5, which formed HoldCo 6. On Date 3, HoldCo 3 sold Sub 3 to HoldCo 6. On Date 4, Sub 1 sold Sub 2 to Holdco 6.

In anticipation of a new Brand store in Region 1, Taxpayer negotiated a lease agreement allowing assignment of the future lease to an affiliate. Subsequently, Taxpayer caused Sub 1 to enter a lease for the Region 1 store.

In Year 2, Taxpayer formed HoldCo 7, which formed Sub 4. Sub 1 assigned the lease of the Region 1 store to Sub 4 on Date 5. Sub 1 has closed three of its Brand stores in Region 1, and will soon close a fourth. Taxpayer represents that it intends to cause Sub 1 to sell its remaining two Region 1 Brand stores to Sub 4.

In summary, Taxpayer is currently the common parent of three relevant holding company chains. The initial holding company chain now contains HoldCo 1, HoldCo 2, HoldCo 3, and Sub 1. The Region 1 holding company chain contains HoldCo 7 and Sub 4. The Region 2 holding company chain contains HoldCo 4, HoldCo 5, HoldCo 6, Sub 2, and Sub 3.

Taxpayer now proposes the following transaction:

1. Sub 1 will file an election under Treas. Reg. § 301.7701-3 to be classified as a disregarded entity for U.S. federal income tax purposes, resulting in a deemed distribution of all of Sub 1's assets and liabilities to Holdco3 (the "Sub 1 CTB Election").

2. Holdco 3 will file an election under Treas. Reg. § 301.7701-3 to be classified as a disregarded entity for U.S. federal income tax purposes, resulting in a deemed distribution of all of HoldCo 3's assets and liabilities to Holdco 2 (the "HoldCo 3 CTB Election").

3. HoldCo 2 will file an election under Treas. Reg. § 301.7701-3 to be classified as a disregarded entity for U.S. federal income tax purposes, resulting in a deemed

distribution of all of HoldCo 2's assets and liabilities to HoldCo 1 (the "HoldCo 2 CTB Election").

4. Holdco 1 will file an election under Treas. Reg. § 301.7701-3 to be classified as a disregarded entity for U.S. federal income tax purposes, resulting in a deemed distribution of all of HoldCo 1's assets and liabilities to Taxpayer (the "HoldCo 1 CTB Election").

REPRESENTATIONS

1. The Sub 1 CTB Election will qualify as a liquidation under Section 332 for U.S. federal income tax purposes; and, pursuant to Section 381, the attributes will carry over to HoldCo 3.

2. The HoldCo 3 CTB Election will qualify as a liquidation under Section 332 for U.S. federal income tax purposes; and, pursuant to Section 381, the attributes will carry over to HoldCo 2.

3. The HoldCo 2 CTB Election will qualify as a liquidation under Section 332 for U.S. federal income tax purposes; and, pursuant to Section 381, the attributes will carry over to HoldCo 1.

4. Taxpayer owns directly more than 80 percent of the total voting power and 80 percent of the total value of HoldCo 1 within the meaning of Section 1504(a)(2).

5. The HoldCo 1 CTB Election will occur at a time when HoldCo 1 will be insolvent (as described in Rev. Rul. 2003-125, 2003-2 C.B. 1243) and its stock will be worthless, within the meaning of section 165(g)(1).

6. HoldCo 1 has not made any distributions that caused it to become insolvent.

RULINGS

Based upon the information submitted and representations made by Taxpayer, we rule as follows:

1. For purposes of computing the "more than 90 percent gross receipts" test under section 165(g)(3)(B), HoldCo 1 will take into account the historic gross receipts of HoldCo 2, HoldCo 3, and Sub 1 provided, however, that prior distributions received by HoldCo 3, HoldCo 2 and HoldCo 1 from Sub 1, HoldCo 3 and HoldCo 2, respectively, will be eliminated so as to prevent duplication.

2. Assuming the requirements for claiming a worthless stock deduction under § 165(g)(3) are otherwise satisfied, Taxpayer may claim a worthless stock deduction for the HoldCo 1 stock upon the occurrence of the HoldCo 1 CTB Election.

CAVEATS

The rulings contained in this letter are based on 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.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

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, a copy of this letter is being sent to your authorized representative.

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.

Sincerely,

Ronald J. Goldstein
Assistant to the Branch Chief, Branch 1
(Income Tax & Accounting)

cc: