Internal Revenue Service

Department of the Treasury
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Person To Contact:
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Telephone Number:

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CC:ITA:B01
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In Re:

Date:
July 02, 2021

LEGEND

Taxpayer	=
State A	=
State B	=
US Sub	=
Foreign Sub 1	=
Country A	=
Foreign Sub 2	=
Country B	=
Holding Co.	=
Year 1	=
Year 2	=
Year 3	=
Year 4	=
Date 1	=
Date 2	=
Date 3	=
Date 4	=
Date 5	=
Date 6	=
Date 7	=
Date 8	=
Date 9	=
Product	=

Dear :

This letter responds to correspondence dated December 21, 2020, and supplemental submissions dated April 6, 2021, and May 7, 2021, submitted on behalf of Taxpayer, requesting a ruling under section 165 of the Internal Revenue Code (the "Code"). This letter ruling is being issued electronically in accordance with Rev. Proc. 2020-29, 2020-21 I.R.B. 859. A paper copy will not be mailed to Taxpayer. The information submitted for consideration is summarized below.

FACTS

Taxpayer, a State A corporation, is the common parent of an affiliated group of corporations that files a consolidated U.S. federal income tax return. Taxpayer wholly and directly owns US Sub, a State B corporation. In Year 1, US Sub formed Foreign Sub 1, a corporation organized under the laws of Country A, to focus on developing Product. In Year 2, US Sub formed Foreign Sub 2, a corporation organized under the laws of Country B, as its European operating corporation meant to facilitate the development and ultimate exploitation of Product. In Year 3, US Sub formed Holding Co., a corporation organized under the laws of Country B, pursuant to a business strategy to centralize all foreign operations in Country B.

On Date 1 and Date 2, US Sub contributed all of the shares of Foreign Sub 1 and Foreign Sub 2 to Holding Co., respectively, in exchange for additional voting stock of Holding Co. Taxpayer treated both contributions as transactions under sections 351(a) and 368(a)(1)(B). US Sub owns directly 100 percent of the total voting power of the stock of Holding Co. and 100 percent of the total value of the stock of Holding Co. within the meaning of section 1504(a)(2).

On Date 3, US Sub concluded that Product was not effective as intended but continued to explore the possibility of monetizing the intellectual property associated with Product in other ways. In the first half of Year 4, it became clear that such monetization was impossible. As a result, US Sub began to wind down its operations related to Product, along with the foreign entities established solely for the development and commercialization of Product. As part of the wind down, the management of US Sub eliminated Foreign Sub 2's workforce and disposed of substantially all of Foreign Sub 2's assets. Foreign Sub 2 was insolvent by Date 5.

A third-party appraiser determined that, as of Date 7, US Sub's equity interests in Holding Co. were worthless and that Holding Co.'s equity interests in Foreign Sub 1 and Foreign Sub 2 were worthless.

On Date 6, Holding Co. filed an election pursuant to section 301.7701-3(a) of the Income Tax Regulations to treat Foreign Sub 2 as a disregarded entity for U.S. federal income tax purposes, effective as of Date 4.
On Date 9, US Sub filed an election pursuant to section 301.7701-3(a) to treat Holding Co. as a disregarded entity for U.S. federal income tax purposes, effective as of Date 8. Holding Co. remained insolvent as of the time of making the election, Date 9, and as of its effective date, Date 8. As of the date of the ruling request, Holding Co. has had no gross receipts since its incorporation in Year 3.

REPRESENTATIONS

1. Foreign Sub 2 was solvent on Date 4. The Foreign Sub 2 election pursuant to section 301.7701-3(a) will qualify as a liquidation under section 332 for U.S. federal income tax purposes.

2. Foreign Sub 1 has had no gross receipts since its incorporation in Year 1.

3. Holding Co. has no other subsidiaries other than Foreign Sub 1 and Foreign Sub 2.

4. Foreign Sub 1 and Foreign Sub 2 do not own any subsidiaries.

RULING

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

For purposes of computing the “more than 90 percent gross receipts” test under section 165(g)(3)(B), Holding Co. will take into account the historic gross receipts of Foreign Sub 2.

CAVEATS

The rulings contained in this letter are based on facts and representations submitted by 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. In particular, the office has not verified any of the information, representations and other data submitted regarding the solvency of Foreign Sub 2 on Date 4 or the insolvency of Holding Co. on Date 8.

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 under any provision of the Code and regulations including, but not limited to, the arm’s length price required for, or the amount of any income or loss resulting from,

any transfers of property, including stock, in any controlled transaction within the meaning of section 482 and the regulations issued 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, a copy of this letter is being sent to Taxpayer's authorized representatives.

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,

Norma C. Rotunno
Branch Chief, Branch 1
(Income Tax & Accounting)

cc: