

Internal Revenue Service

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Savings Bank =

Mid-Tier Holding =

Mutual Holding =

Stock Holding =

Interim Bank 3 =

a =

Date B =

Year C =

This letter replies to your June 30, 1998 request for rulings on the federal income tax consequences of a proposed transaction.

Summary of Facts

All the stock of Savings Bank is owned by Mid-Tier Holding. The stock of Mid-Tier Holding is owned a percent (more than 80 percent) by Mutual Holding and the rest by the public. Mutual Holding is owned by its members, each of whom has voting and liquidation rights (the "Members").

For valid business reasons, Savings Bank wishes to adopt a stock holding company structure in the following manner:

(i) Savings Bank will incorporate Stock Holding.

(ii) Stock Holding will form Interim Bank 3 as a wholly owned subsidiary.

(iii) Mid-Tier Holding will adopt a federal stock middle tier holding company charter and immediately convert that charter to an interim federal stock savings bank charter, becoming "Interim Bank 1." Interim Bank 1 then will merge downstream into Savings Bank ("Merger 1").

(iv) Mutual Holding will convert its federal mutual holding company charter to that of an interim stock savings bank, becoming "Interim Bank 2." Interim Bank 2 then will merge downstream into Savings Bank ("Merger 2"), with each Member of Mutual Holding/Interim Bank 2 exchanging its, his, or her Member interest for an interest in a liquidation account established by Savings Bank (the "Savings Bank Liquidation Account"). The aggregate amount in the Savings Bank Liquidation Account will be the total of dividends waived by Mutual Holding plus the greater of (a) retained earnings of Mutual Holding as of Date B (the date of the statement of financial condition used in the Year C conversion of Savings Bank from mutual to stock form) or a percent of the Mid-Tier Holding shareholders' equity as reflected in its latest financial statement.

(v) Interim Bank 3 will merge into Savings Bank ("Merger 3"), as a result of which Stock Holding will wholly own Savings Bank. The public shareholders who held Mid-Tier Holding stock before Merger 1 will exchange the Savings Bank stock deemed received in Merger 1 for Stock Holding voting stock.

(vi) Stock Holding will sell additional stock in an initial public offering, subject to various subscription rights.

(vii) The former members of Mutual Holding who held Savings Bank Liquidation Account interests in Savings Bank after Merger 2 will retain those interests after Merger 3.

Representations

The taxpayer has submitted the following representations concerning the proposed series of transactions:

- (a) To the best knowledge and belief of Savings Bank's representative, Merger 1 will qualify as a reorganization under § 368(a)(1)(A) of the Internal Revenue Code.
- (b) To the best knowledge and belief of Savings Bank's representative, Merger 2 will qualify as a reorganization under § 368(a)(1)(A), if the Internal Revenue Service rules as the taxpayer proposes.
- (c) To the best knowledge and belief of Savings Bank's representative, Merger 3 will qualify as a reorganization under § 368(a)(1)(A) and (a)(2)(E), if the Internal Revenue Service rules as the taxpayer proposes.

Rulings

Based solely on the information submitted and the representations set forth above, we rule as follows:

- (1) The exchange of Member interests in Mutual Holding/Interim Bank 2 for interests in the Savings Bank Liquidation Account will satisfy the continuity of interest requirement of § 1.368-1(b) of the Income Tax Regulations.
- (2) Interests in the Savings Bank Liquidation Account and the shares of Savings Bank common stock held by Mutual Holding after Merger 1 but before Merger 2 both will be disregarded in determining whether an amount of Savings Bank voting stock that constitutes "control" of Savings Bank is acquired by Stock Holding in exchange for voting stock of Stock Holding in Merger 3.
- (3) The exchange of Stock Holding voting stock for Savings Bank stock in Merger 3 will satisfy the continuity of interest requirement of § 1.368-1(b).

Caveats

No opinion is expressed on the tax treatment of the transactions under other provisions of the Internal Revenue Code and Income Tax Regulations or on the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions that are not specifically covered by the above rulings. In particular no opinion is expressed regarding whether any of Merger 1, Merger 2, or Merger 3 qualifies as a reorganization under § 368.

Procedural Statements

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Each taxpayer involved in these transactions should attach a copy of this letter to the taxpayer's federal income tax return for the taxable year in which the transactions are completed.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to each of your authorized representatives.

Sincerely,

Assistant Chief Counsel (Corporate)

By: Wayne T. Murray

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