Internal Revenue Service

Department of the Treasury

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Person to Contact:

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Parent =

Merger Sub =

Target =

US Sub 1 =

US Sub 2 =

Foreign Sub 1 =

Foreign Sub 2 =

Foreign Sub 3 =

Foreign Sub 4 =

Country S =

Country T =

Country U =

Date 1 =

Date 2 =

v =

w =

Dear :

This letter responds to your April 21, 1999 request for rulings on certain federal income tax consequences of a proposed transaction. The information submitted in that request and later correspondence is summarized below.

The rulings contained in this letter are based on the facts and representations submitted under penalties of perjury in support of the request for rulings. Verification of this information may be required as part of the audit process.

Parent is a diversified industrial corporation that joins with its includible affiliates in filing a consolidated federal income tax return. On Date 1, Parent merged newly formed, wholly owned Merger Sub into Target, an unrelated corporation, in exchange solely for voting stock of Parent (the "Merger"), making Target a wholly owned subsidiary of Parent. At the time, Target wholly owned US Sub 1 and v percent of Foreign Sub 1, a Country T corporation; US Sub 1 wholly owned US Sub 2 and Foreign Sub 2, a Country S corporation; and Foreign Sub 2 wholly owned Foreign Sub 3, a Country U corporation. On Date 2, US Sub 1 liquidated into Target under state law (the "Dissolution"). US Sub 2 then did the same.

Target now owns all of Foreign Sub 2 and v percent of Foreign Sub 1. Foreign Sub 2 continues to wholly own Foreign Sub 3. In a separate chain of corporations, Parent indirectly owns all the stock of Foreign Sub 4, a Country S corporation.

For what are represented to be good business reasons, Parent proposes the following transactions:

(i) Target will transfer its stock in Foreign Sub 1 to Foreign Sub 2 (the "Foreign Sub 1 Transfer").

(ii) Foreign Sub 2 will sell the Foreign Sub 1 stock to Foreign Sub 3 for cash (the "Foreign Sub 1 Sale").

(iii) Target will transfer all the stock of Foreign Sub 2 (representing w percent of Target's assets) to Foreign Sub 4 in exchange for equal fair market value of stock in Foreign Sub 4 (the "Foreign Sub 2 Transfer").

The taxpayer representative states that, to its best knowledge and belief, the Merger will qualify as a reorganization under §§ 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code if not disqualified by the Foreign Sub 2 Transfer. In addition, the taxpayer representative states that the Foreign Sub 1 Sale is described in § 304.

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

(1) Provided the Merger otherwise qualifies as a reorganization under §§ 368(a)(1)(A) and 368(a)(2)(E), its status as such will not be affected by the Foreign Sub 2 Transfer.

(2) The Foreign Sub 1 Transfer, followed by the Foreign Sub 1 Sale, will be taxable under § 367(a)(1) unless Target enters into a gain recognition agreement ("GRA") and complies with all the provisions of §1.367(a)-8 of the Income Tax Regulations. Under § 1.367(a)-8(g)(2), the GRA will be triggered if (i) Foreign Sub 2 disposes of the stock of Foreign Sub 3 or (ii) Foreign Sub 3 disposes of the stock of Foreign Sub 1 (see § 1.367(a)-8(e)). A deemed disposition may occur, for example, under § 301(c)(3)(A) as a result of the § 304 transaction described above.

(3) Because Foreign Sub 2 is a controlled foreign corporation within the meaning of § 957(a), any dividends deemed paid by Foreign Sub 3 and/or Foreign Sub 1 to Foreign Sub 2 under § 304 will be subpart F income to Target, subject to any applicable exceptions (§ 954(c)(1)(A)).

(4) The Foreign Sub 2 Transfer will be taxable under § 367(a)(1) unless Target enters into a GRA and complies with all the provisions of § 1.367(a)-8.

No opinion is expressed about the tax treatment of the transactions described above under other provisions of the Code and regulations or about 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 was requested

and none is expressed regarding:

(i) whether the Merger qualifies as a reorganization under § 368;

(ii) whether the Foreign Sub 1 Transfer qualifies under § 368 or 351;

(iii) whether the Foreign Sub 1 Sale is described in § 304;

(iv) whether the Dissolution is a complete liquidation under § 332 for federal income tax purposes; and

(v) whether the Foreign Sub 2 Transfer qualifies under § 368.

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

Each taxpayer involved in these transactions must attach a copy of this ruling 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 yours,

Assistant Chief Counsel (Corporate)

By:_____
Wayne T. Murray
Senior Technician/Reviewer
Branch 4