

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **200443006**

Release Date: 10/22/04

Index Number: 1502.13-01

Person To Contact:

, ID No.

Telephone Number:

In Re:

Refer Reply To:

CC:CORP:2 – PLR-112422-04

Date:

June 29, 2004

LEGEND

Common Parent =

Consolidated Group =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

State X =

Business A =

PLR-112422-04

Business B =

Business C =

Business D =

Business E =

Prior Year =

Dear :

This letter responds to your January 12, 2004 letter requesting a ruling on certain federal income tax consequences of a proposed transaction. Specifically, you requested a ruling regarding the application of the successor asset rule under § 1.1502-13(j)(1) of the Income Tax Regulations (the "Regulations") and the multiple trigger rule under § 1.1502-13(j)(3) of the Regulations.

Summary of Facts

The information submitted by the taxpayer indicates that Common Parent is a State X corporation engaged in Business A. Common Parent is the common parent of Consolidated Group, an affiliated group of corporations filing a consolidated return. Sub 1 and Sub 2 are wholly-owned subsidiaries of Common Parent. Sub 1 is a State X corporation engaged in Business B. Sub 2 is a State X corporation engaged in Business C. Sub 3 is the wholly-owned subsidiary of Sub 2 engaged in Business D. Sub 4 is the wholly-owned subsidiary of Sub 1 engaged in Business E.

Several years ago (in Prior Year), an intercompany gain arose from the distribution of Sub 4 stock by Sub 3 to Sub 2, and was deferred under § 1.1502-13 of the Regulations (the "Deferred Intercompany Gain"). Following that distribution, Sub 2 distributed the shares of Sub 4 to Common Parent, which in turn, contributed the Sub 4 shares to Sub 1. (the "Prior Year Transactions")

Proposed Transaction

The following transaction is proposed (the "Transaction"): Sub 1 will merge into Sub 4, its wholly-owned subsidiary, in a transaction qualifying as a reorganization under section 368(a) of the Internal Revenue Code (the "Code"). In the merger, the shares

PLR-112422-04

held by Common Parent in Sub 1 will be cancelled, and Common Parent will receive new Sub 4 shares therefor ("New Sub 4 Stock").

Applicable Law

Section 1.1502-13(j)(1) of the Regulations states any reference to an asset includes, as the context may require, a reference to any other asset the basis of which is determined, directly or indirectly, in whole or in part, by reference to the basis of the first asset.

Section 1.1502-13(f)(5)(i) of the Regulations states that S's intercompany item from a transfer to B of the stock of another corporation (T) is taken into account when B's basis in its T stock is permanently eliminated in a merger of B into T or comparable nonrecognition transaction.

Section 1.1502-13(j)(3) of the Regulations states that if more than one corresponding item can cause an intercompany item to be taken into account under the matching rule, the intercompany item is taken into account in connection with the corresponding item most consistent with the treatment of members as divisions of a single corporation.

Rulings

Based solely on the information and representations submitted, we rule that:

1. To the extent that S1's stock is a successor asset to the stock of S4 under § 1.1502-13(j)(1), New Sub 4 Stock will be a successor asset to S4's old stock. § 1.1502-13(j)(1)
2. The Deferred Intercompany Gain will not be taken into account as a result of the Transaction, but will be subsequently taken into account under the matching rule with respect to New Sub 4 Stock. New Sub 4 Stock is the item most consistent with the treatment of members as divisions of a single corporation. § 1.1502-13(j)(3).

Caveats and Procedural Statements

Except as expressly provided herein, no opinion has been requested nor is any being rendered (expressed or implied) concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed as to Federal tax consequences or characterization of the Prior Year Transactions, including the application of section 355 of the Code to any distribution taking place in Prior Year.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed

PLR-112422-04

by an appropriate party. While this office has not verified any of the material submitted in support of the request for a ruling, it is subject to verification on examination.

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.

A copy of this letter must be attached to any income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Edward S. Cohen
Chief, Branch 2
Office of Associate Chief Counsel

(Corporate)

cc: