

**Internal Revenue Service**

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**CC:INTL:Br.3-PLR-118045-00**  
Date:  
**January 24, 2001**

DO: TY:

Legend

Corp A =

Corp B =

Parent A =

Parent B =

Date M =

Date N =

Date 0 =

Dear :

This is in response to a letter dated September 14, 2000, requesting a ruling that Corp A and its subsidiaries be permitted to change to the tax book value method of asset valuation for purposes of apportioning interest expense for tax years beginning on or after Date 0, 1999. Additional information was received in a letter dated October 16, 2000.

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 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.

Corp A is a domestic corporation that is the parent of an affiliated group of corporations that files a consolidated federal income tax return. Prior to Date M, 1999, Corp A was an indirect subsidiary of Parent A, a foreign corporation. Corp B is a domestic corporation. Prior to Date M, 1999, Corp B was a subsidiary of Parent B, a foreign corporation. On Date M, 1999, Parent A and Parent B merged. As a result of this merger, Corp A and Corp B became related persons within the meaning of section 1.861-8T(c)(2) of the Temporary Income Tax Regulations.

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On Date N, 1999, Corp A acquired Corp B in a section 351 exchange. Prior to this date, Corp A apportioned its interest expense using the fair market value method of asset valuation, as described in section 1.861-9T(h) of the temporary regulations. Prior to Date N, 1999, Corp B was the parent of an affiliated group of corporations that filed a consolidated federal income tax return. Corp B and its subsidiaries apportioned interest expense using the tax book value method of asset valuation, as described in section 1.861-9T(g).

Corp A filed a federal income tax return for its consolidated group for the tax year beginning on Date O, 1999, in which the tax book value method was used for purposes of apportioning interest expense. After Date N, 1999, Corp B was included in Corp A's consolidated income tax return.

Section 864(e)(2) of the Internal Revenue Code provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income.

Section 1.861-9T(g)(1)(ii) of the temporary regulations provides that, for purposes of apportioning interest expense, a taxpayer may elect to determine the value of its assets on the basis of either the tax book value or the fair market value of its assets. Section 1.861-8T(c)(2) provides that once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Section 1.861-9T(g)(1)(iii) provides that if a taxpayer elects the fair market value method of asset valuation, the taxpayer must establish the fair market value of its assets to the satisfaction of the Commissioner. Otherwise, the Commissioner may determine the appropriate values or require the taxpayer to use the tax book value method of apportionment. Section 1.861-9T(h) sets forth the rules for determining the fair market value of a taxpayer's assets under the fair market value method.

Corp A requests, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii) of the temporary regulations, to be permitted to use the tax book value method of asset valuation for purposes of apportioning interest expense for tax years beginning on or after Date O, 1999. This change would conform Corp A to the method of asset valuation used by Corp B prior to the section 351 exchange. Corp A has determined that valuing its assets using the tax book value method would decrease complexity and reduce cost by avoiding the need to perform fair market value studies. In addition, using the tax book method would provide greater certainty of tax results and reduce the potential for disagreements with the Service with respect to the fair market value of assets. Corp B and its subsidiaries have not valued their assets using the fair market value method of asset valuation and Corp A would incur considerable costs to value the Corp B assets for purposes of such method of asset valuation.

Based solely on the information submitted, the representations made, and the reasons

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given for this request, Corp A and its subsidiaries may change from the fair market value method of asset valuation for purposes of apportioning interest expense to the tax book value method, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for the tax year beginning on or after Date O, 1999.

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.

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

Sincerely,  
Anne O'Connell Devereaux  
Assistant to the Branch Chief  
Branch 3  
Office of the Associate Chief Counsel  
(International)