

## Internal Revenue Service

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## Department of the Treasury

Washington, DC 20224

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CC:CORP:B05-PLR-125358-01  
Date:  
October 29, 2001

Re:

Corporation =

State X =

Individual Y =

Taxpayer =

Beneficiary =

Sister =

Grantor =

Trust A =

Trust B =

Trust C =

Trust D =

Trust E =

Trust F =

Trust G =

Trust H =

Trust I =

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Trust J	=
Trust K	=
Trustee A	=
Trustee B	=
Trustee C	=
Date A	=
Date B	=
Date C	=
<u>a</u>	=
<u>b</u>	=
<u>c</u>	=
<u>d</u>	=
<u>e</u>	=
<u>f</u>	=
<u>g</u>	=
<u>h</u>	=
<u>i</u>	=
<u>j</u>	=

This is in response to a letter dated April 30, 2001, in which rulings were requested regarding the federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated August 28, 2001 and September 5, 2001. The information submitted in the request and in subsequent correspondence is summarized below.

Corporation is a State X corporation, and uses the accrual method of accounting. Corporation owns operating subsidiaries, portfolio investments and minority interest investments. Corporation has outstanding four classes of stock, including Class A

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voting common stock, Class B nonvoting common stock and voting and nonvoting preferred stock. The common stock is held by three of Grantor's children (Individual Y, Trustee A, and Trustee B) and by trusts (Trust I, Trust J, and Trust K) established for the benefit of the descendants of Individual Y, Trustee A, and Trustee B.

Taxpayer is a trust established under the laws of State X. Its sole beneficiary is an individual, Beneficiary.

Trustee A and Trustee B are Beneficiary's aunt and uncle, are trustees of Taxpayer, and are directors of Corporation. Individual Y is also Beneficiary's aunt. Individual Y, Trustee A, and Trustee B each owned a one-third interest in the Class A voting common stock and Class B nonvoting common stock of Corporation until Date A. On Date A, they each transferred a percent of their Class B nonvoting common stock to newly established trusts, Trust I, Trust J, and Trust K, respectively. Trustee C is also a trustee of Taxpayer and was vice president of Corporation until Date C.

Taxpayer owns b shares (approximately c percent) of the nonvoting preferred stock of Corporation. The remainder of Corporation's voting and nonvoting preferred stock is owned directly and in trusts set up by Individual Y, Trustee A, and Trustee B and by various trusts established by Grantor (Trust A, Trust B, Trust C, Trust D, Trust E, Trust F, Trust G, and Trust H).

Beneficiary has no direct ownership interest in the stock of Corporation. Beneficiary holds a life estate in Taxpayer and a testamentary general power of appointment.

Pursuant to the terms of Taxpayer, the trustees are required to pay the income, at least quarterly, to Beneficiary and may, in their discretion, distribute principal to Beneficiary. Under a testamentary general power of appointment, Beneficiary may by will appoint any remaining principal to or in trust for the descendants of Grantor's three children. Alternatively, Beneficiary may appoint any remaining principal to Beneficiary's estate. If Beneficiary does not exercise the power of appointment, the trust principal is to pass to Beneficiary's then living descendants per stirpes, next to the then living descendants of Beneficiary's father, and then to the then living descendants of Individual Y, Trustee A and Trustee B.

Taxpayer has represented that the actuarial value of Beneficiary's life estate in Taxpayer is d percent and the actuarial value of the remainder interest is e percent.

Beneficiary's sibling is the sole beneficiary of Trust A, which owns f shares of nonvoting preferred stock in Corporation. Under the terms of Trust A, sibling holds 100 percent of the life estate, possesses a testamentary general power of appointment over the trust, is the sole income beneficiary, and the trustees have the power to distribute the trust principal solely to sibling or for sibling's benefit during sibling's lifetime. Taxpayer has represented that the actuarial value of Beneficiary's interest in Trust A is g percent.

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To diversify its investments Taxpayer proposes the following transaction:

- (i) Corporation will redeem all shares of Corporation stock held by Taxpayer for \$h.
- (ii) After the redemption, Taxpayer intends to distribute all of the property held in trust to Beneficiary.

In connection with the proposed redemption, the following representations have been made:

- (a) There are no outstanding options or warrants to purchase Corporation stock, nor are there any outstanding debentures or other obligations that are convertible into Corporation stock or would be considered Corporation stock.
- (b) No notes or other obligations of Corporation will be distributed to Taxpayer.
- (c) No shareholder of Corporation has been or will be obligated to purchase any of the stock to be redeemed.
- (d) The redemption described in this ruling request is an isolated transaction and is not related to any other past or future transaction.
- (e) There have been no redemptions, issuances, or exchanges by Corporation of its stock in the past 5 years, except that a recapitalization of Corporation occurred on Date B, in which i shares of Class A voting common stock and j shares of Class B nonvoting common stock were issued in exchange for each outstanding share of voting common stock. The new nonvoting common stock has the same economic rights as the voting common stock, the only difference being the voting rights.
- (f) Corporation has no plan or intention to issue, redeem, or exchange additional shares of its stock except that Corporation may in the future redeem shares owned by Trust A.
- (g) After the redemption Taxpayer will not be related, within the meaning of § 318 of the Internal Revenue Code, to any remaining shareholder of Corporation.
- (h) There are no declared but unpaid dividends, or funds set apart for dividends, on any of the stock to be redeemed.
- (i) At the time of the exchange, the fair market value of the consideration to be received by the redeemed shareholder will be approximately equal to

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the fair market value of Corporation stock to be exchanged therefor.

- (j) The price to be paid for Corporation stock to be redeemed will not result in a loss with respect to those shares of stock.
- (k) None of the stock to be redeemed is "section 306 stock" within the meaning of § 306.

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

- (1) The proposed redemption by Corporation of all of its stock held by Taxpayer will constitute a complete termination to Taxpayer of its interest within the meaning of § 302(b)(3).
- (2) The redemption by Corporation of the shares held by Taxpayer will be treated as a distribution in full payment in exchange for the stock redeemed as provided in § 302(a).
- (3) Under § 1001, gain or loss will be realized and recognized by Taxpayer measured by the difference between the redemption price and the adjusted basis of the shares of Corporation stock surrendered as determined under § 1011. Provided § 341 (relating to collapsible corporations) is not applicable and the stock is a capital asset in the hands of Taxpayer, the gain or loss, will constitute capital gain or capital loss subject to the provisions and limitations of subchapter P of Chapter One.

The above rulings are effective to the extent that the amount distributed to Taxpayer represents the fair market value of the shares of Corporation stock redeemed. No opinion is expressed about the tax treatment of the amount, if any, by which the distribution to Taxpayer exceeds, or is less than, the fair market value of the stock to be redeemed. The determination of the fair market value of the stock redeemed has been reserved until the federal income tax return for Taxpayer has been filed for the taxable year in which the transaction is consummated.

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and the regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above rulings.

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.

A copy of this letter should be attached to the federal income tax return of the Taxpayer for the taxable year in which the transaction covered by this ruling letter is

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consummated.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to Taxpayer's representative.

Sincerely yours,  
Debra Carlisle  
Chief, Branch 5  
Office of Associate Chief Counsel  
(Corporate)