

**Internal Revenue Service**

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:FIP:4-PLR-130085-02

Date:

October 2, 2002

Legend

Date 1 =

Parent =

Subsidiary A =

Subsidiary B =

State 1 =

State 2 =

Dear :

This letter responds to your request of Date 1 for a ruling concerning the federal income tax consequences of a proposed transaction. Information submitted in that letter is summarized below.

Parent is a State 1 life insurance company as defined in section 816(a) of the Internal Revenue Code. Its primary business is the issuance and reinsurance of life insurance policies and annuity contracts.

Subsidiary A is a State 2 life insurance company as defined in section 816(a). All of Subsidiary A's issued and outstanding stock has been owned by Parent since its incorporation. Subsidiary A's primary business is the issuance of variable annuity contracts, but it also has issued and has outstanding some fixed annuity and life insurance contracts. Subsidiary A cedes virtually all of its premium and risk to Parent on a coinsurance or modified coinsurance basis.

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Subsidiary B is a State 2 life insurance company as defined in section 816(a). All of Subsidiary B's issued and outstanding stock has been owned by Parent since the incorporation of Subsidiary B. Subsidiary B's primary business is the issuance of fixed and variable annuity contracts but it also has issued and has outstanding some life insurance contracts. Subsidiary B cedes virtually all of its premium and risk to Parent on a coinsurance or modified coinsurance basis.

Parent and Subsidiaries A and B join in the filing of a consolidated federal income tax return.

In order to simplify its structure, reduce expenses, and concentrate its focus, Parent plans to effect a complete liquidation of Subsidiaries A and B into itself. The liquidation will be accomplished by way of a statutory merger of Subsidiaries A and B into Parent. Pursuant to the plan of liquidation, all of the assets and liabilities of Subsidiaries A and B will be transferred to Parent, and Subsidiaries A and B will cease to exist.

Included among such assets and liabilities are all of the insurance policies and annuity contracts (Policies) issued by Subsidiaries A and B. As a result of the merger that effects the liquidation, Parent will become the sole obligor under the Policies. Otherwise, the terms and conditions of the Policies will not be changed in any way. Once the liquidation has been completed, Parent will notify the policyholders that Parent is now the sole obligor under the Policies. Parent will not issue new life insurance and annuity contracts to the Policyholders in exchange for their existing Policies.

Parent, Subsidiary A and Subsidiary B make the following representations in connection with the ruling request:

1. The Policies issued as life insurance qualify as "life insurance contracts" for federal income tax purposes.
2. The Policies issued as annuity contracts qualify as "annuity contracts" for federal income tax purposes.
3. The liquidation will qualify as a complete liquidation within the meaning of section 332.

At the completion of the liquidation, the separate existence of Subsidiaries A and B will cease, and Parent will assume all obligations of Subsidiaries A and B. As represented, the liquidation will not materially change the terms and conditions of the Policies and the policyholders' rights and obligations under the Policies. The only effect that the liquidation will have on the Policies is that, after the liquidation has been

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completed, the Policyholders will be notified that Subsidiaries A and B have ceased to exist and that Parent is now the sole obligor under the Policies. Thus, except for the change in obligor, all of the terms of the Policies, including the terms, conditions, rights and obligations concerning premiums, benefits, cash surrender values, charges, annuity options, surrender rights, interest and mortality assumptions and policy loan provisions, will remain the same after the liquidation.

Based solely upon the information submitted and the representations set forth above, we rule as follows concerning the transaction described above:

The liquidation will have no effect on the date that the Policies were issued, entered into or purchased for purposes of sections 264(a)(2), 264(c), 72(e)(4), 72(e)(5), 72(e)(10), 72(e)(11), 72(q), 72(s), 72(u), 72(v), 101(f), 264(a)(3), 264(a)(4), 264(f), 7702 and 7702A. The liquidation will also not require retesting or the start of a new test period under sections 264(d)(1), 7702(f)(7)(B)-(E) and 7702A(c).

The rulings contained in this letter are 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 rulings, it is subject to verification on examination.

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(s) 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 the taxpayer.

Sincerely,  
Mark Smith  
Chief, Branch 4  
Office of Associate Chief Counsel  
(Financial Institutions & Products)