

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:INTL:Br.3-PLR-130641-02

Date:

August 26, 2002

In re:

Legend

Corp X =

Corp Y =

Date 1 =

Date 2 =

Date 3 =

Dear Mr.

This is response to a letter dated June 3, 2002, in which you, as the authorized representative of Corp X, requested a private letter ruling on behalf of Corp X that Corp Y and its pre-acquisition 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 3.

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 rulings, it is subject to verification on examination.

Corp X is domestic corporation that is the common parent of an affiliated group of corporations that file a consolidated federal income tax return on a calendar year basis. Corp X's stock is widely held and publicly traded. Corp X uses the tax book value method of asset valuation, as described in Temp. Treas. Reg. §1.861-9T(g)(1)(ii), for purposes of apportioning interest expense. On Date 1, Corp X completed the acquisition of all of the issued and outstanding shares of stock of Corp Y. Prior to this

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date, Corp Y was the common parent of an affiliated group of corporations (the Corp Y Group) that filed a consolidated federal income tax return with a Date 2 fiscal year end. Prior to the merger, the Corp Y Group had used the fair market value method of asset valuation, as described in Temp. Treas. Reg. §1.861-9T(h), for purposes of apportioning interest expense. As a result of the merger, the Corp Y Group will be included in Corp X's consolidated federal income tax return for the portion of Corp X's taxable year that begins on Date 3.

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.

Temp. Treas. Reg. §1.861-9T sets forth the rules specific to the apportionment of interest expense. Temp. Treas. Reg. §1.861-9T(g)(1)(ii) provides that 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. Temp. Treas. Reg. §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.

Temp. Treas. Reg. §1.861-9T(g)(1)(iii) provides that if the 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. Temp. Treas. Reg. §1.861-9T(h) sets forth the rules for determining the fair market value of taxpayer's assets under the fair market value method.

Corp X requests, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), that the Corp Y Group be permitted to use the tax book value method of asset valuation for tax years beginning on Date 3. Corp X's ruling request states that it desires to use the tax book value method because that method: (1) decreases complexity and avoids potential disagreements with the Service with respect to the fair market value of assets; (2) avoids the cost of having fair market value studies performed; and (3) provides greater certainty of tax results for both the taxpayer and the Service.

Based solely upon the information submitted, the representations made, and the reasons given for this request, the Corp Y Group 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 Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for the tax year beginning on Date 3.

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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.

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

Sincerely,

Anne O'Connell Devereaux
Senior Technical Reviewer, Branch 3
Office of the Associate Chief Counsel
(International)