

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **200406013**
Release Date: 02/06/2004
Index Number: 162.36-00

Person To Contact:
(Badge No.
Telephone Number:

Refer Reply To:
CC:TEGE:EB:EC – PLR-135706-03
Date:
October 15, 2003

Company A =

Company B =

State M =

Country N =

Stock Exchange 1 =

Stock Exchange 2 =

Stock Exchange 3 =

Date X =

Form Y =

This is in response to a letter dated June 2, 2003, submitted by your authorized representative, requesting a ruling under section 162(m) of the Internal Revenue Code. Specifically, a ruling is requested that the deduction limitation of section 162(m) of the Code does not apply to Company A and its subsidiaries.

PLR-135706-03

Company A, a State M corporation, is a wholly owned subsidiary of Company B, which is incorporated under the laws of Country N. Company A is the United States common parent of an affiliated group of corporations that has elected to file a consolidated federal income tax return.

Company B is a “publicly held corporation” within the meaning of section 162(m) of the Code. Company B’s stock is traded on Stock Exchange 1 and Stock Exchange 2. In the United States, American Depository Shares are traded on Stock Exchange 3. Company B is subject to section 12 of the Securities Exchange Act of 1934 (the Exchange Act). On Date X, Company B filed Form Y with the United States Securities and Exchange Commission (SEC).

Company B is a “foreign private issuer” under 17 C.F.R. section 240.3b-4(c) because it is incorporated under the laws of Country N and does not fit the following description:

- (1) More than 50 percent of the issuer’s outstanding voting securities are directly or indirectly held of record by residents of the United States; and
- (2) Any of the following apply:
 - (i) The majority of the executive officers or directors are United States citizens or residents;
 - (ii) More than 50 percent of the assets of the issuer are located in the United States; or
 - (iii) The business of the issuer is administered principally in the United States.

The Form Y filed by Company B does not contain a summary compensation table described in Item 402(b) of Regulation S-K under the Exchange Act.

Section 162(a)(1) of the Code allows a deduction for all of the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered.

Section 162(m)(1) provides that for any publicly held corporation, no deduction shall be allowed for applicable employee remuneration with respect to any covered

PLR-135706-03

employee to the extent that the amount of such remuneration for the taxable year exceeds \$1,000,000.

Section 162(m)(2) defines “publicly held corporation” as any corporation issuing any class of common equity securities required to be registered under section 12 of the Exchange Act.

Under section 1.162-27(c)(1)(ii) of the Income Tax Regulations, a publicly held corporation includes an affiliated group of corporations, as defined in section 1504 (determined without regard to section 1504(b)).

Section 162(m)(3) defines “covered employee” as any employee of the corporation if, as of the close of the taxable year, such employee is the chief executive officer of the taxpayer or is an individual acting in such capacity, or the total compensation of such employee for the taxable year is required to be reported to shareholders under the Exchange Act by reason of such employee being among the four highest compensated officers for the taxable year (other than the chief executive officer).

Under section 1.162-27(c)(2)(ii) of the regulations, whether an individual is the chief executive officer or an officer is determined pursuant to the executive compensation disclosure rules under the Exchange Act.

In the notice of proposed rulemaking containing the proposed regulations under section 162(m), the preamble contains the following language concerning the identification of “covered employee”:

The regulations clarify which employees are “covered employees” for purposes of section 162(m). The legislative history to section 162(m) provides that “covered employees” are defined by reference to the SEC rules governing executive compensation disclosure under the Exchange Act. Under the regulations, an individual is generally a “covered employee” if the individual’s compensation is reported on the “summary compensation table” under the SEC’s executive compensation disclosure rules, as set forth in Item 402 of regulations S-K, 17 C.F.R. 229.402, under the Exchange Act.

Therefore, based on the facts outlined above and provided no summary compensation table under Item 402 of Regulation S-K under the Exchange Act is required to be filed by Company A or Company B with the SEC, no employees of Company B’s affiliated group are “covered employees” under section 162(m)(3) because their compensation is not required to be reported to shareholders under the

PLR-135706-03

Exchange Act. Therefore, Company A and its United States subsidiaries are not subject to the disallowance rule of section 162(m)(1) of the Code.

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. The taxpayer should attach a copy of this ruling 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 yours,

ROBERT B. MISNER
Senior Technician Reviewer
Executive Compensation Branch
Office of the Division Counsel/Associate
Chief Counsel (Tax Exempt and
Government Entities)

Enclosure:
Copy for 6110 purposes