

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **200409034**

Release Date: 2/27/04

Index Number: 311.00-00

Person To Contact:

, ID No.

Telephone Number:

In Re:

Refer Reply To:

CC:CORP:2 – PLR-145927-03

Date:

November 25, 2003

LEGEND

Corporation A =

Corporation B =

State X =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Year 5 =

Date 1 =

Business A =

Y =

Z =

Shareholder 1 =

Shareholder 2 =
Shareholder 3 =
Shareholder 4 =
Shareholder 5 =
Shareholder 6 =
Buyer =
a =
b =
LLC =
Agreement =
Real Property =

Court C =

Arbitration Panel =

Dear

This letter responds to your July 31, 2003 letter requesting rulings on certain federal income tax consequences of a completed transaction. The information submitted in your request and subsequent correspondence is summarized below.

Summary of Facts

Corporation A, incorporated in State X in Year 1, is engaged in Business A. Corporation A is an accrual method taxpayer with a fiscal year accounting period.

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Prior to Year 2, Corporation A had Y shares outstanding which were held by Shareholder 1 (a shares), Shareholder 2 (a shares), Shareholder 3 (b shares), Shareholder 4 (b shares), and Shareholder 5 (b shares). In Year 2, Shareholder 1 died. Pursuant to Agreement, Shareholder 1's estate, Shareholder 2, Shareholder 3, Shareholder 4, Shareholder 5, and Shareholder 6 sold all of their shares in Corporation A to Buyer. As part of Agreement, simultaneous to the stock sale, Corporation A transferred Real Property to Corporation B. Corporation B was owned by Shareholder 3, Shareholder 4, Shareholder 5, and Shareholder 6. No deed was executed evidencing the transfer of Real Property to Corporation B. In Year 3, Corporation B dissolved, distributing Real Property to Shareholder 3, Shareholder 4, Shareholder 5, and Shareholder 6 (the "Shareholders") who have since held beneficial ownership.

For approximately Z years, Corporation A occupied Real Property as a lessee and paid rent on a net-lease basis, deducting its rental payments on its Federal tax returns as a business expense. After the execution of Agreement, Corporation A did not make payments on Real Property's mortgage. The Shareholders, through Corporation B (before its dissolution), paid the mortgage on Real Property, granted a lease, collected rent, negotiated extensions of the lease, and invested substantial amounts in improving Real Property.

In Year 4, a dispute arose between Shareholder 3 and Buyer relating to the terms of the lease. The dispute was submitted to Arbitration Panel which determined, inter alia, that the Shareholders were the true owners of Real Property and ordered Corporation A to execute the documents necessary to register Real Property to the Shareholders. The order of Court C affirmed the decision of Arbitration Panel. On Date 1, pursuant to Court C's order, Corporation A executed the deed transferring Real Property to LLC (wholly controlled entity of Shareholder 3, Shareholder 4, Shareholder 5, and Shareholder 6) (the "Title Transfer").

Representations

The taxpayer has made the following representations concerning the facts described above:

Corporation A has consistently treated, for Federal tax purposes, Real Property as owned by Corporation B and, after the dissolution of Corporation B, by Shareholders.

Court C has affirmed that legal ownership of Real Property was transferred from Corporation A to Shareholders in Year 2, and that the Title Transfer in Year 5 constituted merely the perfection of title.

Rulings

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Based solely on the information submitted and representations above, we rule that the Title Transfer in Year 5 does not constitute a distribution of property subject to section 311(b).

Caveats and Procedural Statements

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 your taxpayer.

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.

Sincerely,

Gerald Fleming
Gerald Fleming
Senior Technician Reviewer
Office of Associate Chief Counsel
(Corporate)

cc: