

Internal Revenue Service

Number: **200602005**

Release Date: 1/13/2006

Index Number: 311.00-00, 337.10-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B04

PLR-112869-05

Date:

September 30, 2005

Shareholder A =

Corporation A =

Corporation B =

Corporation C =

State C =

a =

b =

c =

Water Rights =

Minority
Shareholders =

Case J =

)

Dear :

This letter responds to your February 24, 2005 letter requesting rulings on the federal income tax consequences of a proposed transaction. The information submitted in that request and in later correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Corporation A, Corporation B, and Corporation C (collectively, the "Corporations") use the cash method of accounting, have calendar tax years, and qualify as tax-exempt entities under § 501(c)(12) of the Internal Revenue Code. Shareholder A owns a% of Corporation A, b% of Corporation B, and approximately c% of Corporation C. Corporation A and C have Minority Shareholders.

The Corporations are subject to State C's statutory requirements for mutual ditch companies. Under the law of State C, mutual ditch companies are not formed under general corporate statutes, but rather under special legislation reserved for ditch and reservoir companies. The Corporations each hold a variety of assets (collectively, the "Water Rights") on behalf of their respective shareholders. The Supreme Court of State C stated in Case J that although legal title of the Water Rights are held by mutual ditch companies, in State C, these assets are beneficially owned by the shareholders.

The Water Rights, which are the only assets held by the Corporations, are administered on behalf of the Corporations by Shareholder A. For business reasons, however, Shareholder A no longer wants to administer these Water Rights. Accordingly, Corporation A, Corporation B, and Corporation C intend to dissolve under the laws of State C and distribute the Water Rights to their shareholders (the "Proposed Transaction").

Rulings

Based on the information provided, we rule as follows:

1. Shareholder A and the Minority Shareholders, for federal income tax purposes, are the beneficial owners of the Water Rights. Accordingly, the distribution of the Water Rights by the Corporations in the Proposed Transaction will not be deemed to be a distribution of property to Shareholder A and the Minority Shareholders with respect to their stock.
2. The liquidating distributions in the Proposed Transaction will not result in gain or loss to the Corporations. (§ 311(b)).
3. The Proposed Transaction will not affect the Corporations' tax-exempt status under § 501(c)(12).

Caveats

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

Procedural Statements

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.

Each taxpayer involved in the Proposed Transaction should attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the Proposed Transaction is completed.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Richard K. Passales
Senior Counsel, Branch 4
(Corporate)

cc: