

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

[Third Party Communication:

Date of Communication: Month DD, YYYY]

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:INTL:B04

PLR-135528-06

Date:

January 08, 2007

DO: TY:

Legend

- Taxpayer =
- Domestic Owner 1 =
- Domestic Owner 2 =
- Domestic Owner 3 =
- Foreign Entity 1 =
- Foreign Entity 2 =
- Foreign Entity 3 =
- Foreign Entity 4 =

- Foreign Entity 5 =

- Country A =
- Country A Accounting Principles =

- A Percentage =
- B Percentage =
- C Percentage =
- Date A =
- Date B =
- Date C =
- Date D =
- Taxable Year A =

Dear :

This letter is in response to your request for rulings under section 1503(d) and the regulations thereunder. The rulings contained in this letter are based upon information and representations submitted 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.

SUMMARY OF FACTS

Except as otherwise indicated, the facts described below cover the period beginning Date C, through Date D (the date of the ruling request).

Taxpayer is a domestic corporation that is the common parent of an affiliated group of corporations which file a consolidated U.S. federal income tax return. For financial and tax reporting purposes, Taxpayer and its affiliates use the accrual method of accounting.

Domestic Owner 1 and Domestic Owner 2 are domestic corporations indirectly owned by Taxpayer, and are members of the Taxpayer consolidated group. Domestic Owner 3 is also a domestic corporation that is a member of the Taxpayer consolidated group, and is wholly owned by Domestic Owner 2.

Foreign Entity 1 is a Country A entity that is currently owned approximately A Percentage by Domestic Owner 1, B Percentage by Domestic Owner 2, and C Percentage by Domestic Owner 3. From Date A, through Date B, Foreign Entity 1 was disregarded as an entity separate from its owner and, at all times after Date B, has been classified as a partnership.

Foreign Entity 1 indirectly wholly owned various Country A entities, listed on Schedule A, that are disregarded as entities separate from their owner (together, "Schedule A Disregarded Entities"). Each of the Schedule A Disregarded Entities carries on a business operation within Country A (together, "Country A Branches").

Foreign Entity 1 also directly or indirectly wholly owned other Country A entities, listed on Schedule B, that are disregarded as entities separate from their owner (together, "Schedule B Disregarded Entities").

Together, the Schedule A Disregarded Entities and the Schedule B Disregarded Entities are referred to as "Disregarded Entities."

Foreign Entity 2 is a Country A entity wholly owned by Foreign Entity 1 and disregarded as an entity separate from its owner.

Foreign Entity 3 is a Country A entity wholly owned by Foreign Entity 2 and disregarded as an entity separate from its owner.

Foreign Entity 4 is a Country A entity wholly owned by Foreign Entity 2 and disregarded as an entity separate from its owner.

Foreign Entity 5 is a Country A entity wholly owned by Foreign Entity 3 and disregarded as an entity separate from its owner.

The financial statements of Taxpayer (including its affiliated companies) have been and are presented in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The books and records of Foreign Entity 1 and other Country A members of the Foreign Entity 1 group are prepared based on U.S. GAAP for U.S. financial reporting purposes, and Country A Accounting Principles for Country A financial reporting purposes.

Since the beginning of Taxable Year A, for U.S. and Country A financial reporting purposes, certain items of income and expense were reported as a result of transactions between and among Foreign Entity 1, Foreign Entity 2, Foreign Entity 3, Foreign Entity 4, Foreign Entity 5, and various Disregarded Entities. These items, which were disregarded for U.S. Federal income tax purposes, included fee income or expense from services rendered (principally by Foreign Entity 4 and Foreign Entity 5 to Foreign Entity 3), and interest income and expense from loans (together, “Disregarded Payments”). The services rendered by Foreign Entity 4 and Foreign Entity 5 included front and back office services to Foreign Entity 3, which, in turn, provided services to third parties.

REPRESENTATIONS

The taxpayer has made the following representations that apply for all relevant years since the beginning of Taxable Year A:

- (1) Foreign Entity 1, Foreign Entity 2, Foreign Entity 3, Foreign Entity 4, Foreign Entity 5, and each of the Disregarded Entities are entities subject to income tax in Country A as corporations (or otherwise at the entity level) either on their worldwide income or on a residence basis.
- (2) The books and records of Foreign Entity 1, Foreign Entity 2, and each Disregarded Entity include only those items of income, gain, deduction and loss that have been consistently and properly reported for U.S. financial reporting purposes in accordance with U.S. GAAP.
- (3) Each Country A Branch constitutes a foreign branch as defined in section 1.367(a)-6T(g).
- (4) All of the assets, liabilities and activities of each Schedule A Disregarded Entity are used in, or relate to, the Country A Branch that is legally owned by such entity.

(5) Neither Foreign Entity 1, Foreign Entity 2, nor any of the Schedule B Disregarded Entities conducts activities that constitute a foreign branch as defined in section 1.367(a)-6T(g).

(6) Foreign Entity 3 conducts activities in Country A and various other countries that constitute foreign branches as defined in section 1.367(a)-6T(g).

LAW AND ANALYSIS

Section 1503(d)(1) states that the dual consolidated loss for any taxable year of any corporation shall not be allowed to reduce the taxable income of any other member of the affiliated group for the taxable year or any other taxable year.

Section 1503(d)(2) defines dual consolidated loss as any net operating loss of a domestic corporation which is subject to an income tax of a foreign country on its income without regard to whether such income is from sources in or outside of such foreign country, or is subject to such a tax on a residence basis. However, to the extent provided in the regulations, a dual consolidated loss shall not include any loss which under the foreign income tax law, does not offset the income of any foreign corporation.

Section 1503(d)(3) states that to the extent provided in regulations, any loss of a separate unit of a domestic corporation shall be subject to the limitations of section 1503(d) in the same manner as if such unit were a wholly owned subsidiary of such corporation.

Section 1.1503-2(c)(3)(i) defines the term separate unit to include a foreign branch owned either directly by a domestic corporation, or indirectly through a partnership or a trust interest (regardless of whether the partnership or trust is a United States person). Section 1.1503-2(c)(3)(ii) provides that if two or more foreign branches located in the same foreign country are owned by a single domestic corporation and the losses of each branch are made available to offset the income of the other branches under the tax laws of the foreign country, then the branches shall be treated as one separate unit.

Section 1.1503-2(c)(4) states that the term separate unit also includes a hybrid entity separate unit. A hybrid entity separate unit is an interest in an entity that is not taxable as an association for U.S. income tax purposes, but is subject to income tax in a foreign country as a corporation (or otherwise at the entity level) either on its worldwide income or on a residence basis.

Section 1.1503-2(c)(1) states that for purposes of section 1.1503-2 any separate unit of a domestic corporation is treated as a separate domestic corporation. Section 1.1503-2(c)(2) states that, unless otherwise indicated, any reference in section 1.1503-2 to a dual resident corporation refers also to a separate unit.

Section 1.1503-2(d)(1) provides rules for determining whether a dual resident corporation has a dual consolidated loss for the taxable year. Section 1.1503-2(d)(1)(i) provides that for determining whether a dual resident corporation which is a member of a consolidated group has a dual consolidated loss for the taxable year, the dual resident corporation shall compute its taxable income or loss in accordance with the rules set forth in the regulations under section 1502 governing consolidated taxable income taking into account only the dual resident corporation's items of income, gain, deduction and loss for the year. In addition, net capital losses and carryover and carryback losses are not taken into account.

Section 1.1503-2(d)(1)(ii) states that for purposes of determining whether a separate unit has a dual consolidated loss for the taxable year, the separate unit shall compute its taxable income or loss as if it were a separate domestic corporation and a dual resident corporation in accordance with the provisions of section 1.1503-2(d)(1)(i), using only those items of income, expense, deduction, and loss that are otherwise attributable to the separate unit.

RULINGS

Based solely on the facts submitted and representations made, we rule as follows:

- (1) The interests in each Country A Branch held indirectly by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 are separate units, as defined in section 1.1503-2(c)(3)(i)(A).
- (2) The interests in Foreign Entity 1 held directly, and the interests in Foreign Entity 2, Foreign Entity 3, Foreign Entity 4, Foreign Entity 5 and the interests in each Disregarded Entity held indirectly, by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 are hybrid entity separate units, as defined in section 1.1503-2(c)(4).
- (3) Section 1.1503-2(c)(3)(ii) does not apply to the interests in Foreign Entity 1 held directly, or the interests in Foreign Entity 2, Foreign Entity 3, Foreign Entity 4, Foreign Entity 5, or the interests in each Disregarded Entity held indirectly, by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3, because they are not described in section 1.1503-2(c)(3)(i)(A). In addition, section 1.1503-2(c)(3)(ii) does not apply to any of the Country A Branches held indirectly by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 because they are not owned directly by a single domestic corporation.
- (4) For purposes of determining whether the interests in Foreign Entity 1 held directly, and the interests in Foreign Entity 2 and the Schedule B Disregarded Entities held indirectly, by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 has income or a dual consolidated loss under section 1.1503-2(d)(1)(ii):

(a) Only those items of income, gain, deduction and loss that are properly reflected on the books and records of such entity, as adjusted to conform to U.S. tax principles, shall be taken into account; and

(b) The Disregarded Payments shall not be taken into account, and shall not affect the items taken into account pursuant to ruling (4)(a).

(5) For purposes of determining whether the interests in each Country A Branch held indirectly by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 has income or a dual consolidated loss under section 1.1503-2(d)(1)(ii):

(a) Only those items of income, gain, deduction and loss that are properly reflected on the books and records of the Schedule A Disregarded Entity that legally owns such Country A Branch, as adjusted to conform to U.S. tax principles, shall be taken into account; and

(b) The Disregarded Payments shall not be taken into account, and shall not affect items taken into account pursuant to ruling (5)(a).

(6) For purposes of determining whether the interests in each Schedule A Disregarded Entity held indirectly by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 has a dual consolidated loss under section 1.1503-2(d)(1)(ii), no items of income, gain, deduction or loss shall be taken into account because all of the items properly reflected on the books and records of each Schedule A Disregarded Entity are taken into account by the indirectly held interests in the Country A Branch owned by such entity, as provided in ruling (5).

(7) For purposes of determining whether the interests in Foreign Entity 3, and any activities conducted by Foreign Entity 3 which constitute a separate unit as defined in section 1.1503-2(c)(3)(i)(A), held indirectly by Domestic Owner 1, Domestic Owner 2, and Domestic Owner 3 has a dual consolidated loss under section 1.1503-2(d)(1)(ii):

(a) Only those items of income, gain, deduction and loss that are properly reflected on the books and records of Foreign Entity 3, as adjusted to conform to U.S. tax principles, shall be taken into account; and

(b) The Disregarded Payments shall not be taken into account, and shall not affect items taken into account pursuant to ruling (7)(a).

No ruling has been requested and none is provided about any issues not directly addressed herein, including the treatment of any other separate units owned by Taxpayer or any members of the Taxpayer's consolidated group. For example, no ruling is provided regarding the attribution of the items of income, gain, deduction and

loss that are properly reflected on the books and records of Foreign Entity 3, as adjusted to conform to U.S. tax principles, between and among the interests in Foreign Entity 3, and any activities conducted by Foreign Entity 3 which constitute a separate unit as defined in section 1.1503-2(c)(3)(i)(A).

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.

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Thomas D. Beem
Senior Technical Reviewer
(Branch 4, International)

Attachments: Schedule A
Schedule B

cc:

Schedule A

	Abbrev:	Entity:	Formerly Known As:
1			
2			
3			
4			
5			

Schedule B

	Abbrev	Entity	Formerly Known As:
1			
2			
3			
4			
5			