

Office of Chief Counsel
Internal Revenue Service
Memorandum

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date: December 11, 2006

to: Industry Director, Financial Services (LM:F)

from: Chief, Branch 6
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

subject: Withdrawal of Letter Ruling Request

In accordance with section 7.07(2)(a) of Rev. Proc. 2006-1, 2006-1 I.R.B. 1, 27, this Chief Counsel Advice advises you that a taxpayer within your division has withdrawn a request for a letter ruling. Pursuant to section 6110(k)(3) of the Internal Revenue Code, this Chief Counsel Advice may not be used or cited as precedent.

LEGEND

Taxpayer	=
<u>A</u>	=
<u>B</u>	=
<u>C</u>	=
<u>D</u>	=
<u>E</u>	=
<u>F</u>	=
<u>G</u>	=
<u>H</u>	=
<u>I</u>	=
<u>J</u>	=

This memorandum advises you that a letter ruling request, dated A, submitted on behalf of Taxpayer, is withdrawn. Taxpayer requested a ruling relating to the proper treatment of the sales proceeds of certain real estate located within a D.C. Enterprise Zone, under section 1400B of the Internal Revenue Code. Section 1400B(a) provides that gross income shall not include qualified capital gain from the sale or exchange of any DC Zone asset held for more than 5 years. The term DC Zone asset means any DC Zone business stock, any DC Zone partnership interest, and any DC Zone business property. See section 1400B(b)(1). Section 1400B(b)(4)(B) provides a special rule that qualifies substantially improved buildings as DC Zone business property.

Specifically, the ruling requested that the B sale of the substantially improved real estate located at C, by Taxpayer qualifies for the D.C. Enterprise Zone zero percent capital gains tax rate under section 1400B. Therefore, Taxpayer requested rulings that the net capital gains realized and recognized on the sale of the substantially improved real estate will be taxed at a zero percent Federal tax rate.

On D, Taxpayer was formed when its members contributed real estate and cash in exchange for their interests in the Taxpayer. Taxpayer is treated as a partnership for federal income tax purposes. After the real estate was acquired by Taxpayer in E, Taxpayer substantially improved the real estate. Substantial improvements were made to the real estate between E and F. On G, Taxpayer sold the substantially improved real estate to an unrelated third party for a purchase price of H.

On I, subsequent to Taxpayer's conference of right, Taxpayer was advised that Service's position was adverse to Taxpayer qualifying for zero percent capital gain rate under section 1400B of the Code. Our position was adverse because the holding period of the substantially improved real estate was not more than 5 years from E (when the real estate became substantially improved) to G (the date Taxpayer sold the substantially improved real estate). On J, Taxpayer communicated to the Service that Taxpayer's letter ruling request was being withdrawn.

This writing may contain privileged information. Any unauthorized disclosure of this writing may undermine our ability to protect the privileged information. If disclosure is determined to be necessary, please contact this office for our views.

Please call (202) 622-3110 if you have any further questions.