

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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Date:  
July 02, 2008

X =

A =

B =

Country 1 =

Country 2 =

State =

Date 1 =

Date 2 =

Date 3 =

a =

Dear \_\_\_\_\_ :

This responds to a letter dated December 20, 2007, submitted on behalf of X, requesting a ruling on the status of X as a disregarded entity.

The information submitted states that X was formed under the laws of Country 1 on Date 1. X has been granted, in a separate private letter ruling, an extension of time to file Form 8832, Entity Classification Election, to be treated as a disregarded entity effective Date 1. X's original sole shareholder was A, a State corporation. Subsequently, on Date 2, A sold approximately a% of the Class A common stock of X to B, a Country 2 corporation. This sale of stock to B was rescinded on Date 3. Both Date 2 and Date 3 occurred during the same taxable year.

The Service recognizes that a rescission may be given full effect in abrogating a transaction under certain conditions. When these conditions are met, the transaction is disregarded for federal income tax purposes. In this connection, Rev. Rul. 80-58, 1980-1 C.B. 181, states the general legal principles pertaining to the doctrine of rescission in the following terms:

The legal concept of rescission refers to the abrogation, canceling, or voiding of a contract that has the effect of releasing the contracting parties from further obligations to each other and restoring the parties to the relative positions that they would have occupied had no contract been made. A rescission may be effected by mutual agreement of the parties, by one of the parties declaring a rescission of the contract without the consent of the other if sufficient grounds exist, or by applying to the court for a decree of rescission.

The revenue ruling states that there are at least two conditions that must be satisfied for the remedy of rescission to apply to disregard a transaction for federal income tax purposes. First, the parties to the transaction must return to the status quo ante; that is, they must be restored to "the relative positions they would have occupied had no contract been made." Second, this restoration must be achieved within the taxable year of the transaction.

X, A, and B were restored to the relative positions they would have occupied had X's stock never been sold to B. In addition this restoration occurred within the same taxable year as the original transaction. Therefore, the legal doctrine of rescission applies to (1) disregard the sale of X stock to B and (2) prevent any change in the entity classification of X arising from the sale of X's stock to B.

Based solely on the facts submitted and representations made, we rule that, provided that X makes a valid entity classification election, pursuant to the above-mentioned private letter ruling, to be treated as a disregarded entity effective Date 1, and provided that this election was not otherwise changed since this effective date, X will be treated as continuing to be a disregarded entity during the period from Date 2 to Date 3, and thereafter. We further rule that the rescission of the stock sale will not be treated as the liquidation of a partnership on Date 3.

Except as expressly provided herein, we express or imply no opinion concerning the federal 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.

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

Sincerely,

J. Thomas Hines  
Chief, Branch 2  
Office of Associate Chief Counsel  
(Passthroughs and Special Industries)

Enclosures (2):

Copy of this letter  
Copy for § 6110 purposes

cc: