

Internal Revenue Service

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Person To Contact:
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Telephone Number:

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Date: August 26, 2008

LEGEND:

X =

Agreement =

Segment 1 =

Segment 2 =

State =

a =

b =

c =

d =

e =

Dear :

This letter responds to your letter dated September 10, 2007, and subsequent correspondence, submitted on behalf of X, requesting a ruling concerning the qualifying income exception to the publicly traded partnership rules of §7704 of the Internal Revenue Code.

FACTS

X is a limited partnership organized under the laws of State. X is a “publicly traded partnership” within the meaning of § 7704(b). X’s current business is divided into two segments: Segment 1 and Segment 2. In Segment 1, X refines and processes crude oil into a wide variety of customized lubricating oils, solvents and waxes. In Segment 2, X refines and processes crude oil into a variety of fuel and fuel-related products including unleaded gasoline, diesel, and jet fuel.

X intends to expand its operations by purchasing (i) two existing refineries and (ii) the existing contracts to use three other refineries through Agreements with the owners of such facilities (collectively, the “Acquired Assets”). The Acquired Assets are a, b, c, d, and e. Following is a description of the operations of each of the Acquired Assets:

- a refines feedstocks into four product types: white oils or food grade mineral oils, petrolatums, hydrocarbon solvents and other specialty products (including gelled hydrocarbons, cable filling compounds and petroleum sulfonates).
- b refines petroleum base oils into food grade mineral oils and petroleum sulfonates.
- c will continue to be owned by a third party. X intends to acquire an Agreement with the third party owner of c under which the third party owner will refine kerosene supplied by X into solvents in return for a fee paid by X.
- d will continue to be owned by a third party. X intends to acquire an Agreement with the third party owner of d under which the third party owner will refine diesel fuel supplied by X into solvent products and technical white oils in return for a fee paid by X.
- e will continue to be owned by a third party. X intends to acquire an Agreement with the third party owner of e under which the third party owner will blend crude based feedstocks supplied by X with additives supplied by X to produce the gelled hydrocarbons in return for a fee paid by X.

All of the products that are refined or processed by the Acquired Assets are petroleum products or products derived from oil and gas. In addition, products that are refined or processed by the Acquired Assets are and will continue to be marketed to domestic and international customers who purchase them primarily as raw material components for basic industrial, consumer, and automotive goods. Sales are primarily made both directly to non end-user customers for further processing and through distributors and sales agents for resale. An insignificant amount is marketed to end users.

LAW AND ANALYSIS

Section 7704(a) provides that a publicly traded partnership shall be treated as a corporation. Section 7704(b) provides that the term “publicly traded partnership” means any partnership if (1) interests in that partnership are traded on an established securities market, or (2) interests in that partnership are readily tradable on a secondary market (or the substantial equivalent thereof).

Section 7704(c)(1) provides that § 7701(a) shall not apply to any publicly traded partnership for any taxable year if such partnership met the gross income requirements of § 7704(c)(2) for such taxable year and each preceding taxable year beginning after December 31, 1987, during which the partnership (or any predecessor) was in existence.

Section 7704(c)(2) explains that a partnership meets the gross income requirements of § 7704(c) for any taxable year if 90 percent or more of the gross income of such partnership for such taxable year is qualifying income.

Section 7704(d)(1)(E) provides that the term qualifying income means income or gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, or timber).

CONCLUSION

Based solely on the facts submitted and representations made, we conclude that income derived by X from the operation of the Acquired Assets, as described in this letter ruling, will constitute qualifying income under § 7701(d)(1)(E). Additionally, we conclude that income earned by X from the packaging, marketing, and distribution of the refined and processed products produced by the Acquired Assets, excluding income earned from marketing minerals and natural resources to end users at the retail level, will also constitute qualifying income under § 7701(d)(1)(E).

Except as specifically ruled upon above, we express no opinion concerning the federal tax consequences of the transactions described above under any other provisions of the Code. Specifically, no opinion is expressed as to whether the 90 percent gross income requirement of section 7704(c)(1) is met.

The ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Pursuant to the power of attorney on file with this office, copies of this letter will be sent to X's authorized representative.

Sincerely,

Dianna K. Miosi

Dianna K. Miosi
Chief, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

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