

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:CORP:01
PLR-117520-09
Date:

July 28, 2009

Legend

Parent =

Sub: =

Agency =

Agency Act =

State A: =

Business 1 =

Program: =

xx =

Date 1 =

Dear _____ :

This letter responds to your letter dated March 23, 2009, requesting the permission of the Commissioner to discontinue filing a consolidated Federal income tax return, under section 1.1502-75(c) of the Income Tax Regulations. The material information submitted for consideration 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

Parent, a State A corporation, is the common parent of an affiliated group of corporations (the "Parent Group") that files a consolidated return for Federal income tax purposes. Subsidiary is wholly owned by Parent, and is the only other member of Parent Group. The Parent Group's consolidated return is currently filed on a calendar year basis.

Parent was established in accordance with U.S. government regulations on the mandate of the Agency. Parent is a membership not-for-profit company, with approximately xx members. Parent is involved in Business 1 and also provides services to its members helping them understand and comply with the Agency rules.

Pursuant to the Agency Act, the Agency authorized Parent to establish Subsidiary to administer Program, a program mandated by the Agency Act. The results of operations of the Program are included in the annual financial statements prepared by the Agency.

While Parent and Subsidiary owe their existence to, and are operated in close cooperation with the Agency, they operate different programs and have very few transactions between themselves. Their respective revenues are derived from different sources.

Differences between the Parent Group's calendar year and the Agency's fiscal year ending on Date 1 have complicated the annual audit process conducted by the Office of the Inspector General with respect to the Program and added costs to the Agency's audit process in terms of the allocation of resources necessary to respond to duplicative audit requests. Agency directives prevent Parent from issuing additional Subsidiary stock to a third party, and Parent cannot change its tax year because its members rely upon the calendar year tax period for their own purposes. The Agency formally

requested Parent to request permission of the Commissioner to deconsolidate in order for Subsidiary to change its fiscal year to conform to the Agency's fiscal year.

Section 1.1502-75(a)(2) provides generally that a group of affiliated corporations which filed a consolidated Federal income tax return for a previous year must continue to file as a consolidated group unless permission to discontinue consolidation under § 1.1502-75(c) is granted. Section 1.1502-75(c) provides generally that the Commissioner upon application by the common parent, may for good cause shown grant permission to a group to discontinue filing consolidated returns.

REPRESENTATIONS

Parent has made the following representations in connection with its request:

- (a) Following the deconsolidation, Parent and Subsidiary will file separate income tax returns for at least a 60-month period unless the Service permits or requires Parent or Subsidiary to join a new consolidated group within the 60-month period.
- (b) Parent and Subsidiary do not anticipate that their Federal income tax liability in the aggregate for the year of the deconsolidation and subsequent years will be less than the amount that their consolidated Federal income tax liability would have been had the deconsolidation not occurred.
- (c) Any intercompany gains and losses with respect to Parent and Subsidiary will be taken into account in accordance with § 1.1502-13(d) (subject to § 267(f) of the Internal Revenue Code), and Parent and Subsidiary will take into account any other items required under the regulations under § 1502 for members that become nonmembers.
- (d) At the time of the deconsolidation, Parent will not have an excess loss account in the stock of Subsidiary.
- (e) Intercompany obligations, if any, between Parent and Subsidiary will be deemed satisfied and reissued immediately before the deconsolidation.
- (f) If the value of any share of Subsidiary's stock in the hands of Parent is less than its tax basis, Parent's basis will be reduced to fair market value immediately before the deconsolidation, subject to the limitations in § 1.1502-36(c).

RULING

Based solely on the information submitted and on the representations set forth above, we rule that Parent may elect to discontinue filing consolidated income tax returns with Subsidiary beginning with the calendar year 2009 (§ 1.1502-75(c)(1)).

CAVEATS

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

A copy of this letter should be attached to the Federal income tax returns of each party involved for the taxable year of the transaction. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their returns that provides the date and control number of the letter ruling.

Pursuant to a power of attorney on file in this office, a copy of this letter is being forwarded to other authorized representatives.

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.

Sincerely,

Mark J. Weiss
Assistant to Branch Chief, Branch 1
Office of Associate Chief Counsel (Corporate)