

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:PSI:B01
PLR-103945-11

Date:
July 25, 2011

Legend

X =

Y =

Holding =

State =

Dear :

This responds to a letter dated January 7, 2011, together with subsequent correspondence, requesting a ruling as to the federal income tax consequences of a proposed transaction.

Facts

The information submitted states that X is a State corporation that is treated as a C corporation for federal tax purposes. X currently has seven shareholders. X is the sole shareholder of Y, a State corporation. X wants to restructure by undertaking the following transaction.

First, six of X's shareholders, which are business entities treated as either a corporation, a partnership, or a disregarded entity for federal income tax purposes, will distribute their shares of X to each shareholder's individual owners in a taxable transaction. Then, those individual owners, none of whom are nonresident aliens, together with the seventh shareholder of X, which X represents is eligible to hold stock in an S corporation, will contribute their shares of X to Holding, a newly-formed business entity. Holding will then own all of the issued and outstanding shares of X. X will continue to own all the issued and outstanding shares of Y.

X represents that Holding will elect, on or before the 15th day of the third month after its formation, to be treated as an S corporation for federal tax purposes. In addition, X represents that Holding will elect to treat X as a qualified subchapter S subsidiary (QSub).

X represents that Holding will have fewer than 100 owners, none of which would be ineligible to hold stock in an S corporation. X represents that, after the proposed transaction, Holding will not have more than one class of stock.

Law and Analysis

Section 1361(a)(1) of the Internal Revenue Code defines an "S corporation" as a small business corporation for which an election under § 1362(a) is in effect for such year.

Section 1361(b)(1) provides that the term "small business corporation" means a domestic corporation that is not an ineligible corporation and that does not (A) have more than 100 shareholders, (B) have as a shareholder a person (other than an estate, a trust described in subsection (c)(2), or an organization described in subsection (c)(6)) who is not an individual, (C) have a nonresident alien as a shareholder, and (D) have more than one class of stock.

Section 1361(b)(2) identifies an ineligible corporation as any corporation which is (A) a financial institution which uses the reserve method of accounting for bad debts described in section 585, (B) an insurance company subject to tax under subchapter L, (C) a corporation to which an election under section 936 applies, or (D) a DISC or former DISC.

Section 1361(b)(3)(A) provides that generally a QSub shall not be treated as a separate corporation, and that all assets, liabilities, and items of income, deduction, and credit of a QSub shall be treated as assets, liabilities, and such items of the S corporation.

Section 1361(b)(3)(B) defines a QSub as a domestic corporation which is not an ineligible corporation, if 100 percent of the stock of the corporation is owned by the S corporation, and the S corporation elects to treat the corporation as a QSub.

Section 1362(a) provides that, except as provided in § 1362(g), a small business corporation may elect, in accordance with the provisions of § 1362, to be an S corporation.

Conclusion

Based solely on the facts and representations submitted, we conclude that X will be eligible to be treated as a QSub.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer 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.

Except as specifically set forth above, we express or imply no opinion concerning the federal tax consequences of the facts described above under any other provision of the Code.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) 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 X's authorized representative.

Sincerely,

Laura C. Fields

Laura C. Fields

Acting Senior Technician Reviewer, Branch 1

Office of the Associate Chief Counsel

(Passthroughs & Special Industries)

Enclosures (2)

A copy of this letter

A copy for § 6110 purposes

cc: