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Department of the Treasury

Washington, DC 20224

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CC:CORP:5

PLR-110968-13

Date:

August 26, 2013

Legend

Parent =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

State A =

Business X =

x =

y =

z =

Dear :

This letter responds to your March 4, 2013 and August 22, 2013 letters requesting a ruling as to the Federal income tax consequences of certain proposed transactions. We summarize material facts below.

The ruling in this letter is based upon 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.

FACTS

Parent files a consolidated return for Federal tax purposes, and Parent conducts Business X, in conjunction with the following members. Parent directly owns all of the stock of Sub 1, Sub 2, and Sub 3. Sub 1 directly owns all of the stock of Sub 4.

Sub 5 engages in Business X. Sub 5 is a State A entity that is a corporation for U.S. Federal tax purposes. State A had enacted a statute that conferred certain benefits upon entities like Sub 5, provided Sub 5's governance complies with the statute in two salient respects. First, x trusts held Sub 5's equity, with the trustees of each trust holding legal title to the Sub 5 equity. Each trustee is an officer or employee of a member of the group. Sub 1 is the grantor and beneficiary of each trust, and each trust is a grantor trust that is disregarded as separate from Sub 1 for U.S. Federal income tax purposes. Sub 1 appoints the trustees, enjoys unfettered power to remove a trustee, and can amend or revoke the trusts at any time. Sub 1 has the right to all distributions from Sub 5.

Second, under the aegis of the statute, the trustees granted a power of attorney to Sub 3, to act on behalf of the trustees in managing Sub 5. Nonetheless, the trustees retain the right to remove Sub 3. Trustees possess, also, the power to adopt Sub 5's bylaws, and to adopt and amend Sub 5's articles of agreement.

More recently, State A has eliminated the benefit of the Sub 5 structure. For administrative efficiency, therefore, Parent seeks to dissolve Sub 5.

PROPOSED TRANSACTIONS

Sub 5 will adopt a plan of liquidation ("Sub 5 Liquidation"). As Sub 5 concludes its operations, Sub 5 will service existing contracts, for at most y taxable years, and Sub 5 will cease writing new business. As each contract expires, Sub 1, Sub 2 or Sub 4 will renew the customer contract, as appropriate. Sub 5's assets include a customer-based intangible ("Property Rights"), which reflects Sub 5's expectation that specific customers will renew their contracts. Sub 5 will transfer a portion of this asset directly to Sub 2 or Sub 4 (the "Sub 2 Transfer" and the "Sub 4 Transfer", respectively, and the "Transfers", collectively). The aggregate value, if any, of the portion of the Property Rights asset that Sub 5 will transfer to Sub 2 and Sub 4 will be less than z% of the value of Sub 5's net and gross assets. Sub 1 will assume remaining Sub 5 customer contracts, and Sub 5 will distribute all remaining Sub 5 assets, subject to retention to cover claims not yet processed or assumed by Sub 1.

Sub 5 will dissolve either by (i) filing for the State A regulator's approval to dissolve Sub 5's charter or (ii) converting into a stock issuing company under an enabling State A statute and simultaneously merging the converted entity into Sub 1.

REQUESTED CHARACTERIZATION

For Federal tax purposes, Parent seeks to characterize the proposed transactions as the following sequence of steps:

- 1) Sub 5 will be deemed to transfer all of its assets and liabilities to Sub 1;
- 2) Sub 1 will be deemed to contribute a portion of the Property Rights to Sub 4 in exchange for the deemed issuance of Sub 4 shares (the "Sub 4 Contribution");
- 3) Sub 1 will be deemed to distribute a portion of the Property Rights to Parent (the "Sub 1 Distribution"); and
- 4) Parent will be deemed to contribute the Property Rights received in the Sub 1 Distribution to Sub 2 in exchange for the deemed issuance of shares of Sub 2 (the "Parent-Sub 2 Contribution").

REPRESENTATIONS

Sub 5 Liquidation - Representations

- a) The primary purpose for the Sub 5 Liquidation is to eliminate the operating, administrative, and system costs of maintaining Sub 5 because State A legislative amendments have eliminated the original purpose for having formed Sub 5.
- b) Sub 5 and Sub 1 will adopt a plan of complete liquidation under the laws of the State of State A (the "Plan of Liquidation"), and the Sub 5 Liquidation will occur pursuant to the Plan of Liquidation.
- c) Pursuant to the Plan of Liquidation, the final liquidating distribution will be completed within three years from the close of the taxable year of Sub 5 in which the first liquidating distribution is made.
- d) From the date of adoption of the Sub 5 Liquidation (the "Sub 5 Liquidation Plan Date"), until the Sub 5 Liquidation will be completed, all of the Sub 5 equity will be owned through the Trusts as described above, Sub 5 has no (and will have no) outstanding warrants, options, convertible securities, or other obligations that may be classified as equity for U.S. Federal income tax purposes, and all Sub 5 obligations denominated as indebtedness are properly classified as indebtedness for U.S. Federal income tax purposes.
- e) No Sub 5 equity will have been redeemed during the three years preceding the Sub 5 Liquidation Plan Date.
- f) No Sub 5 equity has been the subject of a prior intercompany recognition transaction under Reg. §1.1502-13 (or its predecessors) or basis reduction under Sections 108(b) and 1017 and Reg. §1.1502-28.
- g) As soon as the first liquidating distribution is made, Sub 5 will begin winding up its affairs.
- h) Following the final liquidating distribution, Sub 5 will cease to exist as a legal entity, and it will not retain any assets or engage in any activity.
- i) Sub 5 will not have acquired assets in any nontaxable transaction at any time, except for acquisitions in the ordinary course of its business and acquisitions more than three years before the Sub 5 Liquidation Plan Date.

- j) Except for those transferred to other members of the Parent group in the Transfers, no assets of Sub 5 have been, or will be, disposed of by either Sub 5 or Sub 1, other than dispositions in the ordinary course of business, and dispositions more than three years before the Sub 5 Liquidation Plan Date.
- k) Except for the Transfers, the Sub 5 Liquidation will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of Sub 5, if persons holding, directly or indirectly, more than 20% in value of the Sub 5 equity (as determined by application of Section 318(a) as modified by Section 304(c)(3)) also hold, directly or indirectly, more than 20% in value of the stock in Recipient.
- l) Prior to the Sub 5 Liquidation Plan Date, no assets of Sub 5 will have been distributed in kind, transferred or sold to Sub 1, other than transactions in the ordinary course of business, and transactions occurring more than three years before the Sub 5 Liquidation Plan Date.
- m) Sub 5 will report all earned income represented by assets that will be treated as distributed to Sub 1 for U.S. Federal income tax purposes, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc., and all items of income, gain, loss, deduction, and credit, if any, will be taken into account as required by the applicable intercompany transaction regulations as a result of the Sub 5 Liquidation (see Reg. §§1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597, 1995-2 C.B. 147, and as currently in effect; Reg. §1.1502-13, as published by T.D. 8597).
- n) The fair market value of the assets of Sub 5 will exceed its liabilities, at the Sub 5 Liquidation Plan Date, immediately before the first liquidating distribution is made, and at all times thereafter until the final liquidating distribution is made.
- o) The fair market value of any existing intercompany obligation between Sub 1 (or any entity disregarded as separate from Sub 1 for U.S. Federal income tax purposes) and Sub 5 (or any entity disregarded as separate from Sub 5 for U.S. Federal income tax purposes) transferred as part of the Sub 5 Liquidation will be approximately equal to its adjusted issue price and adjusted tax basis for U.S. Federal income tax purposes; and no such intercompany obligation between Sub 1 (or any entity disregarded as separate from Sub 1 for U.S. Federal income tax purposes) and Sub 5 (or any entity disregarded as separate from Sub 5 for U.S. Federal income tax purposes) will have been cancelled, forgiven or discounted, except for transactions that will have occurred more than three years before the Sub 5 Liquidation Plan Date.
- p) Sub 1 is not an organization that is exempt from U.S. Federal income tax under Section 501 or another provision of the Code.

- q) All transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to the Sub 5 Liquidation have been fully disclosed.
- r) The Sub 5 Liquidation and the Transfers will be effected pursuant to a single plan.
- s) The aggregate value of the Property Rights transferred to Parent group members other than Sub 1 in the Transfers (*i.e.*, Sub 2 and Sub 4) will represent less than z% of the value of Sub 5 net and gross assets.
- t) Sub 5 transfer of Property Rights directly to Sub 4 and Sub 2 in the Transfers is solely for the convenience of the Parent group members and not for the purpose of avoiding any U.S. Federal income tax.

Sub 4 Contribution - Representations

- u) The purpose for the Sub 4 Transfer is to preserve the Parent group's existing separation of customer contracts among Parent group companies, with the rights to issue contracts for certain customers transitioned to Sub 4, to reflect the appropriate company of eligibility, and there is no purpose to prevent the consolidated return regulations from properly addressing loss duplication.
- v) No Sub 4 stock or securities will be issued (or deemed issued) for services rendered to or for the benefit of Sub 4 in connection with the Sub 4 Transfer.
- w) No Sub 4 stock or securities will be issued (or deemed issued) for indebtedness of Sub 4 that is not evidenced by a security or for interest on indebtedness of Sub 4 which accrued on or after the beginning of the holding period of Sub 1 for the indebtedness.
- x) The Sub 4 Transfer is not the result of the solicitation by a promoter, broker, or investment house.
- y) Sub 1 will not retain any rights in the Property Rights transferred to Sub 4.
- z) Sub 4 will not assume any liabilities, or acquire any property subject to any liabilities, pursuant to the Sub 4 Transfer (whether indebtedness or other forms of obligations, including contingent obligations) within the meaning of Section 357(d).
- aa) There will be no indebtedness created in favor of Sub 1 in the Sub 4 Transfer.
- bb) The Sub 4 Transfer will occur pursuant to a plan agreed upon before the Sub 4 Transfer in which the rights of the parties are defined.

- cc) All exchanges pursuant to the Sub 4 Transfer will occur on approximately the same date.
- dd) There is no plan or intention on the part of Sub 4 to redeem or otherwise acquire any stock deemed to be issued in the Sub 4 Transfer.
- ee) Taking into account all issuances of shares of Sub 4 stock in connection with the Sub 4 Transfer, and all sales, exchanges, transfers by gift, or other dispositions of any Sub 4 stock in connection with the Sub 4 Transfer, Sub 1 will remain the sole shareholder of Sub 4, and therefore be in "control" of Sub 4 within the meaning of Section 368(c), after the Sub 4 Transfer.
- ff) Sub 1 will be deemed to receive stock of Sub 4 approximately equal to the fair market value of the Property Rights transferred in the Sub 4 Transfer.
- gg) Sub 4 will remain in existence and plans to retain and use the Property Rights transferred to it in a trade or business.
- hh) There is no plan or intention by Sub 4 to dispose of the Property Rights other than in the normal course of its business operations.
- ii) Each of Sub 1 and Sub 4 will pay its own expenses, if any, incurred in connection with the Sub 4 Transfer.
- jj) Sub 4 will not be an investment company within the meaning of Section 351(e)(1) and Reg. §1.351-1(c).
- kk) Sub 1 is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock or securities received in the Sub 4 Transfer will not be used to satisfy indebtedness of Sub 1.
- ll) Sub 4 will not be a "personal services corporation" within the meaning of Section 269A.
- mm) The total fair market value of the Property Rights transferred by Sub 1 to Sub 4 will exceed the sum of (i) the amount of liabilities assumed (as determined under Section 357(d)) by Sub 4 in connection with the Sub 4 Transfer, (ii) the amount of liabilities owed to Sub 4 by Sub 1 that were discharged or extinguished in connection with the Sub 4 Transfer, and (iii) the amount of any money and the fair market value of any other property (other than stock permitted to be received under Section 351(a) without the recognition of gain) received by Sub 1 in connection with the Sub 4 Transfer.
- nn) Immediately after the Sub 4 Transfer, the aggregate fair market value of the assets of Sub 4 will exceed the sum of its liabilities (whether indebtedness or other forms of obligations, including contingent obligations), plus the liabilities, if any, to which the assets of Sub 4 are subject.

- oo) Sub 1's adjusted basis in the Property Rights will not exceed fair market value.
- pp) To the extent an intercompany obligation will be transferred in the Sub 4 Transfer for U.S. Federal income tax purposes, (i) the Sub 4 Transfer will not be engaged in with a view to shift items of built-in gain, loss, income, or deduction from the obligation in order to secure a tax benefit that the Parent group or its members would not otherwise enjoy in a consolidated or separate return year, and (ii) none of the following Parent group members is described in, or engaged in a transaction that is described in, any of the following six circumstances: (a) neither Sub 1 nor Sub 4 has a loss subject to limitation under Reg. §1.1502-21(c) or Reg. §1.1503(d)-4, but only if the other is not subject to a comparable limitation; (b) neither Sub 1 nor Sub 4 has a special status under Reg. §1.1502-13(c)(5) that the other does not also possess; (c) no Parent group member excludes discharge of indebtedness from gross income under Section 108(a) within the same taxable year as the Sub 4 Transfer, and no tax attributes attributable to either Sub 1 or Sub 4 are reduced under Sections 108 and 1017, and Reg. §1.1502-28 (except if the attribute reduction results solely from the application of Reg. §1.1502-28(a)(4)); (d) Sub 4 has no nonmember shareholder; (e) Sub 4 will not issue preferred stock to Sub 1 in the Sub 4 Transfer; and (f) the stock of Sub 4 (or a higher-tier member other than a higher-tier member of an 80% chain that includes Sub 1 and Sub 4) will not be disposed of within 12 months from the Sub 4 Transfer, unless at the time of the Sub 4 Transfer, Sub 1 and Sub 4 are in the same 80% chain, and all of the stock of Sub 4 held by Sub 1 is disposed of as part of the same plan or arrangement, either directly or indirectly, to persons that are not members of the Parent group.
- qq) With respect to any intercompany obligation transferred in the Sub 4 Transfer, its adjusted basis, adjusted issue price and fair market value are approximately the same amount.
- rr) All transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to the Sub 4 Transfer have been fully disclosed.

Parent-Sub 2 Contribution - Representations

- ss) The purpose for the Sub 2 Transfer is to preserve the Parent group's existing separation of customer contracts among Parent group companies, with the rights to issue contracts for certain customers transitioned to Sub 2, to reflect the appropriate company of eligibility, and there is no purpose to prevent the consolidated return regulations from properly addressing loss duplication.
- tt) No Sub 2 stock or securities will be issued (or deemed issued) for services rendered to or for the benefit of Sub 2 in connection with the Sub 2 Transfer.
- uu) No Sub 2 stock or securities will be issued (or deemed issued) for indebtedness of Sub 2 that is not evidenced by a security or for interest on indebtedness of Sub 2

which accrued on or after the beginning of the holding period of Parent for the indebtedness.

vv) The Sub 2 Transfer is not the result of the solicitation by a promoter, broker, or investment house.

ww) Parent will not retain any rights in the Property Rights transferred to Sub 2.

xx) Sub 2 will not assume any liabilities, or acquire any property subject to any liabilities, pursuant to the Sub 2 Transfer (whether indebtedness or other forms of obligations, including contingent obligations) within the meaning of Section 357(d).

yy) There will be no indebtedness created in favor of Parent in the Sub 2 Transfer.

zz) The Sub 2 Transfer will occur pursuant to a plan agreed upon before the Sub 2 Transfer in which the rights of the parties are defined.

aaa) All exchanges pursuant to the Sub 2 Transfer will occur on approximately the same date.

bbb) There is no plan or intention on the part of Sub 2 to redeem or otherwise acquire any stock deemed to be issued in the Sub 2 Transfer.

ccc) Taking into account all issuances of shares of Sub 2 stock in connection with the Sub 2 Transfer, and all sales, exchanges, transfers by gift, or other dispositions of any Sub 2 stock in connection with the Sub 2 Transfer, Parent will remain the sole shareholder of Sub 2, and therefore be in "control" of Sub 2 within the meaning of Section 368(c), after the Sub 2 Transfer.

ddd) Parent will be deemed to receive stock of Sub 2 approximately equal to the fair market value of the Property Rights transferred in the Sub 2 Transfer.

eee) Sub 2 will remain in existence and plans to retain and use the Property Rights transferred to it in a trade or business.

fff) There is no plan or intention by Sub 2 to dispose of the Property Rights other than in the normal course of its business operations.

ggg) Each of Parent and Sub 2 will pay its own expenses, if any, incurred in connection with the Sub 2 Transfer.

hhh) Sub 2 will not be an investment company within the meaning of Section 351(e)(1) and Reg. §1.351-1(c).

iii) Parent is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of Section 368(a)(3)(A)) and the stock or securities received in the Sub 2 Transfer will not be used to satisfy indebtedness of Parent.

jjj) Sub 2 will not be a “personal services corporation” within the meaning of Section 269A.

kkk) The total fair market value of the Property Rights transferred by Parent to Sub 2 will exceed the sum of (i) the amount of liabilities assumed (as determined under Section 357(d)) by Sub 2 in connection with the Sub 2 Transfer, (ii) the amount of liabilities owed to Sub 2 by Parent that were discharged or extinguished in connection with the Sub 2 Transfer, and (iii) the amount of any money and the fair market value of any other property (other than stock permitted to be received under Section 351(a) without the recognition of gain) received by Parent in connection with the Sub 2 Transfer.

lll) Immediately after the Sub 2 Transfer, the aggregate fair market value of the assets of Sub 2 will exceed the sum of its liabilities (whether indebtedness or other forms of obligations, including contingent obligations), plus the liabilities, if any, to which the assets of Sub 2 are subject.

mmm) Parent's adjusted basis in the Property Rights will not exceed its fair market value.

nnn) To the extent an intercompany obligation will be transferred in the Sub 2 Transfer for U.S. Federal income tax purposes, (i) the Sub 2 Transfer will not be engaged in with a view to shift items of built-in gain, loss, income, or deduction from the obligation in order to secure a tax benefit that the Parent group or its members would not otherwise enjoy in a consolidated or separate return year, and (ii) none of the following Parent group members is described in, or engaged in a transaction that is described in, any of the following six circumstances: (a) neither Parent nor Sub 2 has a loss subject to limitation under Reg. §1.1502-21(c) or Reg. §1.1503(d)-4, but only if the other is not subject to a comparable limitation; (b) neither Parent nor Sub 2 has a special status under Reg. §1.1502-13(c)(5) that the other does not also possess; (c) no Parent group member excludes discharge of indebtedness from gross income under Section 108(a) within the same taxable year as the Sub 2 Transfer, and no tax attributes attributable to either Parent or Sub 2 are reduced under Sections 108 and 1017, and Reg. §1.1502-28 (except if the attribute reduction results solely from the application of Reg. §1.1502-28(a)(4)); (d) Sub 2 has no nonmember shareholder; (e) Sub 2 will not issue preferred stock to Parent in the Sub 2 Transfer; and (f) the stock of Sub 2 (or a higher-tier member other than a higher-tier member of an 80% chain that includes the Parent and Sub 2) will not be disposed of within 12 months from the Sub 2 Transfer, unless at the time of the Sub 2 Transfer, Parent and Sub 2 are in the same 80% chain, and all of the stock of Sub 2 held by Parent is disposed of as part of the same plan or arrangement, either directly or indirectly, to persons that are not members of the Parent group.

ooo) With respect to any intercompany obligation transferred in the Sub 2 Transfer, its adjusted basis, adjusted issue price and fair market value are approximately the same amount.

ppp) All transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to the Sub 2 Transfer have been fully disclosed.

RULINGS

The Sub 5 Liquidation

- 1) The Sub 5 Liquidation will be treated for U.S. Federal income tax purposes as Sub 5's distribution of all of its assets and liabilities to Sub 1 in complete liquidation under Section 332(a).
- 2) The Transfers, representing in the aggregate less than z% of the value of Sub 5 net and gross assets, will not disqualify the Sub 5 Liquidation as, or recharacterize it as other than, a complete liquidation under Section 332.
- 3) No gain or loss will be recognized by Sub 1 on its deemed receipt of the assets and liabilities of Sub 5 pursuant to the Sub 5 Liquidation. (Section 332(a))
- 4) No gain or loss will be recognized by Sub 5 on its deemed distribution of assets and liabilities to Sub 1 in the Sub 5 Liquidation. (Section 337(a) and Reg. §1.1502-13(g))
- 5) The basis of each Sub 5 asset deemed received by Sub 1 pursuant to the Sub 5 Liquidation will equal Sub 5 basis immediately before the distribution of such asset pursuant to the Sub 5 Liquidation. (Section 334(b)(1))
- 6) The holding period of each Sub 5 asset deemed received by Sub 1 pursuant to the Sub 5 Liquidation will include Sub 5 holding period immediately before the distribution of such asset pursuant to the Sub 5 Liquidation. (Section 1223(2) and Reg. § 1.1502-13(c)(1)(ii))
- 7) Sub 1 will succeed to and take into account the items of Sub 5 described in Section 381(c), subject to the conditions and limitations specified in Sections 381 and the regulations thereunder. (Section 381(a)(1) and Reg. §1.381(a)-1)
- 8) Except to the extent Sub 1's earnings and profits ("E&P") (or deficit in E&P) already reflects Sub 5 E&P (or deficit in E&P), Sub 1 will succeed to and take into account the E&P (or deficit in E&P) of Sub 5 as of the date of the completion of the Sub 5 Liquidation, and any Sub 5 deficit in E&P will be used only to offset E&P accumulated by Sub 1 after the date of the Sub 5 Liquidation. (Section 381(c)(2) and Reg. §§1.381(c)(2)-1, 1.1502-33(a)(2) and 1.1502-80(a)(2))

The Sub 4 Transfer

- 9) The Sub 4 Transfer will be treated for U.S. Federal income tax purposes as Sub 1's transfer of certain Property Rights (received in the Sub 5 Liquidation) to Sub 4 after the Sub 5 liquidation, in a separate transaction under Section 351(a).
- 10) No gain or loss will be recognized by Sub 1 on its deemed transfer of assets and liabilities, if any, to Sub 4 solely in deemed exchange for shares of Sub 4 stock, and Sub 4's assumption of Sub 1 liabilities, if any, pursuant to the Sub 4 Transfer. (Sections 351(a) and 357(a) and Reg. §1.1502-13(g)(3)(i)(B)(1))
- 11) No gain or loss will be recognized by Sub 4 on its deemed receipt of assets and liabilities, if any, solely in deemed exchange for shares of Sub 4 stock, and Sub 4's assumption of Sub 1 liabilities, if any, pursuant to the Sub 4 Transfer. (Section 1032(a))
- 12) The basis of Sub 1 in its Sub 4 stock following the Sub 4 Transfer will be adjusted based on Sub 1's basis in the Property Rights transferred to Sub 4. (Section 358(a) and (d)(1) and Reg. §1.1502-80(h))
- 13) The basis of each Property Right deemed received by Sub 4 pursuant to the Sub 4 Transfer will equal Sub 1's basis immediately before the Sub 4 Transfer. (Section 362(a) and Reg. §1.1502-80(h))
- 14) Sub 1 will adjust its holding period in the Sub 4 stock following the Sub 4 Transfer to include Sub 1's holding period in the Property Rights (taking into account the application of Section 1223(2) on the receipt of such Property Rights by Sub 1 from Sub 5), provided that the Property Rights are held by Sub 1 as a capital asset on the date of the Sub 4 Transfer. (Section 1223(1) and Reg. §1.1502-13(c)(1)(ii))
- 15) The holding period of each Property Right deemed received by Sub 4 pursuant to the Sub 4 Transfer will include Sub 1's holding period immediately before the Sub 4 Transfer (taking into account the application of Section 1223(2) on the receipt of such Property Rights by Sub 1 from Sub 5). (Section 1223(2) and Reg. §1.1502-13)

The Parent-Sub 2 Contribution

- 16) The Sub 2 Transfer will be treated for U.S. Federal income tax purposes as Sub 1's distribution of certain Property Rights (received in the Sub 5 Liquidation) to Parent after the Sub 5 Liquidation in a separate transaction under Section 301 and Reg. §1.1502-13(f)(2), followed by Parent's transfer of such Property Rights to Sub 2 in a separate transaction under Section 351(a).
- 17) No gain or loss will be recognized by Parent on its deemed receipt of Property Rights from Sub 1 in the Sub 1 Distribution, and Parent will reduce its basis in the Sub 1 stock by the fair market value of the Property Rights received. (Reg. §§1.1502-13(f)(2)(ii) and 1.1502-32(b)(2)(iv))
- 18) Gain or loss will be recognized by Sub 1 on its deemed distribution of Property Rights to Parent in the Sub 1 Distribution, and the gain or loss will be taken into account by Sub 1 in accordance with Reg. §1.1502-13. (Reg. §1.1502-13(f)(2)(iii))
- 19) The basis of the Property Rights deemed received by Parent in the Sub 1 Distribution will equal the fair market value of the Property Rights. (Section 301(d))
- 20) No gain or loss will be recognized by Parent on its deemed transfer of assets and liabilities, if any, to Sub 2 solely in deemed exchange for shares of Sub 2 stock, and Sub 2's assumption of Parent liabilities, if any, pursuant to the Sub 2 Transfer. (Sections 351(a) and 357(a) and Reg. §1.1502-13(g)(3)(i)(B)(1))
- 21) No gain or loss will be recognized by Sub 2 on its deemed receipt of assets and liabilities, if any, solely in deemed exchange for shares of Sub 2 stock, and Sub 2's assumption of Parent liabilities, if any, pursuant to the Sub 2 Transfer. (Section 1032(a))
- 22) The basis of Parent in its Sub 2 stock following the Sub 2 Transfer will be adjusted based on Parent's basis in the Property Rights transferred to Sub 2. (Section 358(a) and (d)(1) and Reg. §1.1502-80(h))
- 23) The basis of each Property Right deemed received by Sub 2 pursuant to the Sub 2 Transfer will equal Parent's basis immediately before the Sub 2 Transfer. (Section 362(a) and Reg. §1.1502-80(h)).
- 24) Parent will adjust its holding period in the Sub 2 stock following the Sub 2 Transfer to include Parent's holding period in the Property Rights (taking into account the application of Section 1223(2) on the receipt of such Property Rights by Parent from Sub 1), provided that the Property Rights are held by Parent as a capital asset on the date of the Sub 2 Transfer. (Section 1223(1) and Reg. §1.1502-13(c)(1)(ii))

25) The holding period of each Property Right deemed received by Sub 2 pursuant to the Sub 2 Transfer will include Parent's holding period immediately before the Sub 2 Transfer (taking into account the application of Section 1223(2) on the receipt of such Property Rights by Parent from Sub 1). (Section 1223(2) and Reg. §1.1502-13)

CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

PROCEDURAL STATEMENTS

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. A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Joanne M. Fay
Chief, Branch 2
Associate Chief Counsel (Corporate)

cc: