

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
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September 12, 2013

Legend

X =

State =

Dear _____ :

This letter responds to a letter dated April 9, 2013, submitted on behalf of X by X's authorized representatives, requesting a ruling under § 7704(d)(1)(E) 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 presently operates two cokemaking facilities which refine metallurgical coal into metallurgical coke, a high purity carbon substance used in blast furnaces for making steel.

X intends to expand its existing business to include iron ore processing through the beneficiation and pelletizing processes. Iron ore is primarily found in four sources: magnetite, hematite, goethite, and siderite. Typical iron ores contain a significant amount of worthless material, referred to as gangue, from which the iron oxides must be concentrated before they are able to be used by the iron and steel industries. Best quality ores, containing greater than 55% iron, may simply be crushed for size prior to use in a blast furnace. Lower grade iron ores require additional processing.

Lower grade must first be crushed, ground, and separated from gangue through the beneficiation process. Beneficiation includes crushing and grinding, separation through

gravity concentration (spirals) or magnetic concentration, and iron ore upgrading, flotation, and thickening, as needed. The beneficiated iron ore consists of finely-sized particles which are not suitable for use in ironmaking or steelmaking and must be agglomerated into larger particles before use. Pelletizing is one of the most common ways to agglomerate iron ore particles. Prior to pelletizing, the iron ore is pretreated through an additional grinding. After pretreatment, a balling drum or disc is used to form the iron ore into spheres. A small amount of binder may be used to control balling rates and hold the pellets together until hardening. The most common binder is bentonite clay, but other clays, organics, and cements may also be used. The rotation of the balling disc or drum forms the raw materials and binder into moist iron pellets, called green pellets. A fine grade metallurgical coke ("Coke breeze") may be added to the pellet mix to add combustion heat in the hardening process. The green iron ore pellets are hardened through heating with either a traveling grate machine or a grate-kiln-cooler system. Depending on the needs of the customer, limestone and dolomite may also be added to the mix prior to balling. Limestone removes impurities in the blast furnace. Dolomite improves blast furnace recovery.

X may either purchase iron ore raw materials from a third party, beneficiate and pelletize the iron ore and sell the pellets and concentrates on its own account, or provide iron ore processing as a service for a for customers that own iron ore and contract for processing. If X purchases iron ore (raw iron ore or concentrate) and sells iron ore as pellets or concentrates, X represents that it will sell the iron ore pellets or concentrates in bulk quantities to iron and steel manufacturers for further processing into iron and steel. X will not sell any pellets or concentrates to a customer which could be considered an end user at the retail level.

LAW AND ANALYSIS

Section 7704(a) provides that, except as provided in § 7704(c), a publicly traded partnership will 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 § 7704(a) does not apply to a publicly traded partnership for any taxable year if such partnership meets the gross income requirements of § 7704(c)(2) for the 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) provides, in relevant part, that a partnership meets the gross income requirements of § 7704(c)(2) for any taxable year if 90 percent or more of the gross income of the partnership for the taxable year consists of qualifying income.

Section 7704(d)(1)(E) provides that the term “qualifying income” includes income and 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, and timber).

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that income derived by X from iron ore processing and the non-retail sale of iron ore pellets and concentrates constitute qualifying income within the meaning of § 7704(d)(1)(E).

Except as expressly provided herein, no opinion is expressed or implied concerning the federal tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed as to whether X meets the 90 percent gross income requirement of § 7704(c)(1) in any taxable year for which this ruling may apply.

This ruling is directed only to the taxpayer requesting it. However, in the event of a technical termination of X under § 708(b)(1)(B), the resulting partnership may continue to rely on this ruling in determining its qualifying income under § 7704(d)(1)(E). Section 6110(k)(3) of the Code 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 your authorized representative.

Sincerely,

Laura C. Fields

Laura C. Fields
Senior Technician Reviewer, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

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