

**Internal Revenue Service**

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Department of the Treasury  
Washington, DC 20224

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Date of Communication: Not Applicable

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CC:CORP:B04  
PLR-122907-14  
Date:  
October 07, 2014

Legend

Distributing =

Controlled =

Distributing =  
Retained  
Business

Controlled  
Business =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

FSub 1 =

FSub 2 =

FSub 3 =

FSub 4 =

FSub 5 =

FSub 6 =

FSub 7 =

FSub 8 =

State A =

Country B =

Country C =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

a =

b =

c =

d =

Dear :

We respond to your authorized representatives' letter dated June 9, 2014, requesting rulings on certain federal income tax consequences of a proposed and partially completed transaction (the Proposed Transaction). The information provided in that request and in subsequent correspondence dated August 27, 2014, September 29, 2014, and October 1, 2014 is summarized below.

The rulings contained in this letter are based upon information 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 material submitted in support of the request for rulings. Verification of the information, representations, and any other data may be required as part of the audit process.

This Office expresses no opinion concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter, except as expressly provided herein. Specifically, this Office expresses no opinion whether the Proposed Transaction qualifies under sections 332, 355, or 368 of the Internal Revenue Code, or regarding any issue or step not specifically addressed by this letter. Rather, the rulings contained in this letter only address one or more discrete legal issues involved in the Proposed Transaction.

#### SUMMARY OF FACTS

Distributing is a publicly traded State A corporation and the common parent of an affiliated group of corporations that join in the filing of a consolidated federal income tax return (the Distributing Group). Distributing has one class of stock outstanding. Distributing is engaged in and operates, through its subsidiaries, several lines of business, including the Controlled Business (the subsidiaries engaged in such business,

the Controlled Subsidiaries), and the Distributing Retained Business (the subsidiaries engaged in such business, the Distributing Subsidiaries).

Distributing wholly owns Sub 1, FSub 2, and Controlled, which was created on Date 1. Distributing conducts the Distributing Retained Business and the Controlled Business in the United States through Sub 1 and its subsidiaries. Sub 1 wholly owns Sub 2 and Sub 3. Sub 2 directly conducts the Distributing Retained Business and Controlled Business through U.S. and foreign entities and subsidiaries. Distributing conducts the Controlled Business through U.S. and foreign subsidiaries. Sub 2 wholly owns all of the stock of Sub 4. Sub 4 conducts the Controlled Business through U.S. and foreign subsidiaries. Sub 1, Sub 2, Sub 3 (prior to Step (ii)), and Sub 4 are State A corporations.

FSub1, a Country C corporation, and its subsidiaries, principally conduct Distributing's world-wide foreign Distributing Retained Business (except for Country B), and all of Distributing's world-wide foreign Controlled Business (except for Country B). Distributing owns a percent of FSub 1 directly. Sub 3 directly owns the remaining b percent of FSub 1. FSub 1 wholly owns FSub 3, a Country C corporation. Through multiple foreign corporations and entities owned primarily by FSub 3, Distributing conducts the foreign world-wide (except Country B) Distributing Retained Business and Controlled Business.

In Country B, FSub 2 wholly owns FSub 5, both Country B corporations. FSub 5 conducts the Distributing Retained Business through U.S. and foreign subsidiaries and the Controlled Business through Country B subsidiaries (Country B Subsidiaries).

#### PROPOSED TRANSACTION

Distributing proposes to undertake (or has already undertaken) the following steps (collectively, the Proposed Transaction). The relevant steps of the Proposed Transaction are set forth below:

##### Domestic Transfers

- (i) On Date 1, Distributing formed Controlled, a State A limited liability corporation, treated as a disregarded entity for federal income tax purposes (a DRE).
- (ii) On Date 3, Sub 2, Sub 3, and Sub 1 (in that order) converted to limited liability corporations under the laws of State A intended to be treated as DREs for federal income tax purposes.
- (iii) Sub 2 will distribute the stock of all top-tier Controlled Subsidiaries that it holds to Sub 1, and Sub 1 will distribute the stock of these Controlled Subsidiaries to Distributing, in transactions intended to be disregarded for federal income tax purposes.

(iv) Distributing will transfer the stock of the Controlled Subsidiaries received in Step (iii) to Controlled in a transaction intended to be disregarded for federal income tax purposes.

#### Foreign Transfers

(v) Under local foreign law, the world-wide foreign Distributing Retained Business and Controlled Business will be separated. FSub 3 will form FSub 4, a Country C corporation, by contributing the Controlled Business to FSub 4 in exchange for all the stock of FSub 4. FSub 3 will distribute all the stock of FSub 4 to FSub1.

(vi) Sub 3 will distribute its b percent interest in FSub1 to Sub 1, and Sub 1 will distribute the b percent interest to Distributing in transactions intended to be disregarded for federal income tax purposes.

(vii) FSub 1 will distribute all the stock of FSub 4 to Distributing. Distributing will contribute all the stock of FSub 4 to Controlled in a transaction intended to be disregarded for federal income tax purposes.

#### Country B Transfers

(viii) On Date 2, FSub 5 formed FSub 8, a Country B corporation.

(ix) On Date 4, Controlled formed FSub 7, a Country B entity treated as a DRE for federal income tax purposes. FSub 7 will have two authorized classes of stock: (i) voting, participating common shares (the FSub 7 Common Shares), and (ii) redeemable preferred shares (the FSub 7 Preferred Shares). Controlled will own all outstanding FSub 7 Common Shares.

(x) On Date 5, FSub 2 and FSub 5 underwent an amalgamation under Country B law, with the surviving corporation, FSub 6, succeeding to the assets and liabilities of both FSub 2 and FSub 5. The stock of FSub 6 will be held by Distributing.

(xi) FSub 6 will recapitalize, creating a new class of common stock (FSub 6 New Common Stock) and a class of preferred stock (FSub 6 Special Shares). FSub 6 will redeem each existing share of FSub 6 stock for one share of FSub 6 New Common Stock and one share of FSub 6 preferred stock.

(xii) In a three-party agreement among Distributing, Controlled, and FSub 7: (a) Distributing will transfer the FSub 6 Special Shares to FSub 7, (b) Controlled will issue additional Controlled member interests to Distributing, and (iii) FSub 7 will issue additional FSub 7 member interests to Controlled.

(xiii) FSub 6 will contribute the Country B Subsidiaries and its Country B Controlled Business assets to FSub 8 in exchange for all of the stock of FSub 8 and the assumption by FSub 8 of certain liabilities.

(xiv) To conform with certain Country B requirements, the following steps will be effectuated, pursuant to a binding commitment, in close temporal proximity, and either all the steps will be implemented or none of the steps will be implemented: (a) FSub 6 will transfer its shares of FSub 8 to FSub 7 in exchange for FSub 7 Preferred Shares with an equal value, (b) FSub 6 will redeem the FSub 6 Special Shares held by FSub 7 in exchange for the issuance by FSub 6 to FSub 7 of a promissory note equal in value to the redeemed FSub 6 Special Shares, (c) FSub 7 will redeem the FSub 7 Preferred Shares held by FSub 6 in exchange for the issuance to FSub 6 of a promissory note equal in value to the redeemed FSub 7 Preferred Shares, and (d) the promissory notes held by FSub 6 and FSub 7 will be set off against each other and cancelled. As a result, FSub 7, wholly-owned by Controlled LLC, will own all of the shares of FSub 8. FSub 8 at the time of the binding commitment will hold all of the Country B Controlled Business assets and subsidiaries. Steps (viii) through (xiv) are collectively, the Country B Spinoff.

(xv) FSub 7 filed an election under section 301.7701-3 of the Income Tax Regulations to be treated as a corporation for federal income tax purposes effective Date 6.

#### Contribution & Distribution

(xvi) Following steps (viii) – (xv), Controlled converted on Date 7 to a State A corporation in a transaction intended to be treated as a contribution of all the stock of the top-tier Controlled Business Subsidiaries, F Sub 1, F Sub 7, and certain assets related to the Controlled Business from Controlled LLC to the Controlled corporation in exchange for all the stock of Controlled, Controlled Cash (described below), and any assumed liabilities in connection with the conversion (the Controlled Contribution).

(xvii) Controlled will raise cash (the Borrowed Cash) through one or more of the issuance of: (i) private or publicly-traded Controlled debt instruments, (ii) one or more term loans, and (iii) a revolving credit facility.

(xviii) Controlled will distribute to Distributing all or a portion of the Borrowed Cash, and possibly additional available cash (collectively, the Controlled Cash).

(xix) Distributing will distribute the Controlled stock pro rata to its shareholders (the Distribution).

(xx) Distributing will transfer all of the Controlled Cash to its shareholders within c months. Distributing will accomplish such transfer by purchasing its shares as part of and pursuant to its existing open-market share buy-back program or open market purchases within the meaning of Section 4.05(1)(b) of Rev. Proc. 96-30, 1996-1 C.B. 696. Alternatively, Distributing may transfer the Controlled Cash to its shareholders in the form of one or more pro rata dividends paid in continuation of Distributing's historic practice of making regular quarterly dividend payments (any share repurchase or dividend described herein, a Shareholder Payment). The exact form of Distributing's

Shareholder Payment will depend on then prevailing market conditions and Controlled's assessment of market perceptions at and after the effective date of the Distribution. Distributing has no plan or intention to purchase more than 10 percent of its currently outstanding shares in the c months following the Distribution.

## REPRESENTATIONS

- (a) The Controlled Business assets owned by Sub 1 prior to its conversion to a limited liability company, and that will be contributed to Controlled as part of the Proposed Transaction, represent less than d percent of Sub 1's total assets.
- (b) The Controlled Business assets owned by Sub 2 prior to its conversion to a limited liability company, and that will be contributed to Controlled as part of the Proposed Transaction, represent less than d percent of Sub 2's total assets.
- (c) Except as otherwise described above, the liquidations of Sub 1 and Sub 2 will not be preceded or followed by the reincorporation in, or transfer or sale to, a recipient corporation of any of the businesses or assets of Sub 1 or Sub 2, respectively, if persons holding, directly or indirectly, more than 20 percent in value of the stock of Sub 1 or Sub 2, respectively, also hold, directly or indirectly, more than 20 percent in value of the stock in the recipient corporation. For purposes of this representation, ownership will be determined by application of the constructive ownership rules of section 318(a) as modified by section 304(c)(3).
- (d) All notes issued in Step (xiv) will have the same terms and values, and all exchanges in Step (xiv) will be for consideration of equal value.
- (e) No part of the consideration to be distributed by Distributing will be received by a shareholder of Distributing as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.
- (f) The total fair market value of the assets transferred to Controlled in the Controlled Contribution will exceed the sum of (i) the amount of any liabilities assumed (within the meaning of section 357(d)) by Controlled in connection with the exchange, (ii) the amount of any liabilities (if any) owed to Controlled by Distributing that are discharged or extinguished in connection with the exchange, and (iii) the amount of cash and the fair market value of any other property (other than stock and securities permitted to be received under section 361(a) without the recognition of gain) received by Distributing in connection with the exchange. The fair market value of the assets of Controlled will exceed the amount of its liabilities immediately after the exchange.
- (g) The aggregate adjusted basis and the aggregate fair market value of the assets transferred to Controlled in the Controlled Contribution will each equal or exceed the sum of (i) the total liabilities to assumed (as determined under section 357(d)) by Controlled plus any liabilities to which the transferred assets are subject, and (ii) the



total amount of any money and the fair market value of any other property (within the meaning of section 361(b)) received by Distributing from Controlled in the exchange.

(h) Any liabilities assumed (as determined under section 357(d)) by Controlled in the Contribution will be incurred in the ordinary course of business and will be associated with the assets being transferred.

(i) Within c months following the Distribution, Distributing will use the entire amount of the Controlled Cash to repurchase shares of its stock or make dividend distributions.

#### RULINGS

(1) The transfers of less than d percent of the Sub 1 and Sub 2 assets to Controlled will not preclude the Liquidations from otherwise constituting “complete liquidations” within the meaning of section 332.

(2) Steps (viii) through (xv) will be treated as if: (a) FSub 6 contributed the Country B Controlled Business to FSub 8 in exchange for all of the FSub 8 stock and the assumption by FSub 8 of liabilities to which the transferred assets are subject, and (b) FSub 6 distributed the FSub 8 stock to Distributing (Rev. Rul. 83-142, 1983-2 C.B. 68; Rev. Rul. 77-191, 1977 C.B. 94).

(3) Provided that the Contribution and Distribution meet the requirements of sections 368(a)(1)(D) and 355, the use of the Controlled Cash in the manner described in Step (xx) above within c months of the date of the Distribution will be treated as a distribution in pursuance of the plan of reorganization within the meaning of section 361(b).

(4) Controlled will not be a successor to Distributing for purposes of section 1504(a)(3).

#### CAVEATS

No opinion is expressed or implied about the federal income tax consequences of any other aspect of any transaction or item discussed or referenced in this letter, or the federal income tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings.

#### 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.

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

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.

Sincerely,

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Filiz A. Serbes  
Branch Chief, Branch 3  
Office of Associate Chief Counsel (Corporate)

cc: