

**Internal Revenue Service**

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Person To Contact:  
, ID No.

Telephone Number:

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Legend

Corporation A =

Partnership A =

Branded Insurers =

Partnership B =

Corporation C =

Specified Line of Business =

State A =

State B =

Branded =

X =

Y =

Date X =

Date Y =

Dear :

This letter responds to your June 21, 2012 letter requesting rulings on certain U.S. federal income tax consequences of a series of proposed restructuring transactions (collectively, the "Proposed Transactions"). The information provided in that request and in subsequent correspondence on September 27, 2012, December 20, 2012, February 8, 2013, August 22, 2014 and October 7, 2014 is summarized below.

The rulings contained in this letter are based upon facts and representations submitted by the taxpayer and accompanied by penalties of perjury statements 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 other data may be required as part of the audit process.

#### SUMMARY OF FACTS

Partnership A was formed on Date X and various Branded Insurers and their subsidiaries became partners on Date Y. Partnership A is a State B limited liability company ("LLC") registered to do business in State A and treated as a partnership for U.S. federal income tax purposes. The purpose of the formation of Partnership A was to provide a joint venture for Branded Insurers and their subsidiaries to combine certain components of their dental, life and health business. Focusing on the Specified Line of Business, the joint venture allows Partnership A and its subsidiaries to provide customers with Branded Specified Line of Business coverage while also allowing the Branded Insurers to pool their collective risks to take advantage of economies of scale, to increase operating efficiencies and to provide a broader array of product offerings to their policyholders. Partnership A serves as a holding partnership for the joint venture operation and has minimal operations of its own.

Corporation A is wholly-owned by Partnership A. Corporation A is a State A domiciled insurance company which is regulated as a life and health insurer and is treated as an insurance company for U.S. federal income tax purposes pursuant to Subchapter L of the Internal Revenue Code. Corporation A operates as a direct writer and reinsurer of dental, life and health insurance contracts in most states. In addition, Corporation A reinsures the Branded Specified Line of Business contracts of some Branded Insurers and their subsidiaries who are partners in the Partnership A joint venture.

The current owners of Partnership A would like to add additional Branded Insurers to a new corporate joint venture. The Proposed Transactions are intended to facilitate the growth of the Partnership A joint venture operations and allow the addition of new Branded Insurers (“New Investors”) with similar blocks of the Specified Line of Business to that of Corporation A.

## PROPOSED TRANSACTIONS

For what are represented to be valid business reasons, the parties will engage in the following steps.

1. Partnership A will form Partnership B, a limited liability company (“LLC”), with nominal cash.
2. New Investors will contribute cash to Partnership A in exchange for Partnership A units.
3. Partnership B will acquire a dormant shell insurance corporation to be renamed Corporation C.
4. Amongst other assets, Partnership A will contribute cash, and Corporation A and New Investors will contribute X percent of their Specified Line of Business to Corporation C solely in exchange for stock (the “Corporation C Contribution” and Partnership A, Corporation A and New Investors are collectively referred to as the “Corporation C Shareholders”). The contribution by Corporation A and New Investors will consist of the following: (i) insurance in force, via reinsurance contracts; and (ii) a contract transferring the rights to provide administrative services contract (“ASC”) to the ASC business currently managed by the New Investors (the “New ASC Agreements”).
5. In exchange for stock, as part of the Corporation C Contribution, Corporation A and New Investors will contribute to Corporation C all existing unpaid Specified Line of Business liabilities (i.e., claims and Incurred but not Reported (“IBNR”) liabilities) and the assets related to those liabilities. The assets will include cash, investment assets, and premium receivables, as well as the right to the future results of the future insurance policies for existing and future customers of Corporation A and the New Investors.

6. Corporation A will also transfer Y employees to Corporation C to perform the following functions of the business: product development, sales, provider relations, claims management, and customer service.
7. Pursuant to a pre-existing binding plan. Partnership A, Corporation A and New Investors will contribute their Corporation C stock received in Steps 4 and 5 to Partnership B solely in exchange for Partnership B units (the "Partnership B Contribution").

The transfer of the respective Specified Line of Business of Corporation A and New Investors to Corporation C in the Corporation C Contribution will be effected by a 100 percent coinsurance agreement written on an indemnity basis, with automatic reinsurance on new policies directly written on a going forward basis. The reinsurance agreement will only be in exchange for a transfer of Corporation C shares, which represent a long-term continuing interest in Corporation C. There will be no experience rated refunds or profit sharing provisions to the reinsurance agreement. Should Corporation A or New Investors decide to withdraw from the joint venture, they would be required to purchase the Specified Line of Business it contributed back from Corporation C at fair market value including a gross up for taxes. As a result, it is anticipated that the transfer under the reinsurance agreement will be permanent.

After the formation, Corporation C will have employees, and assets and liabilities, including the insurance in-force and the rights to the ASC business. The New Investors will retain the actual subscriber, provider and underlying ASC contracts and will operate on a fronting basis via the indemnity reinsurance and ASC contracts. Corporation C expects to operate via a transitional services agreement with the New Investors to continue to administer the insurance business until Corporation C has the infrastructure to manage the administration of the insurance business. Partnership B will have cash and the stock of Corporation C.

## REPRESENTATIONS

The following representations are made by Partnership A and Corporation A with regard to the Proposed Transactions.

1. In connection with the Corporation C Contribution, no stock or securities will be issued for services rendered to or for the benefit of Corporation C and no stock or securities will be issued for the indebtedness of Corporation C.
2. The Corporation C Contribution is not the result of the solicitation by a promoter, broker, or investment house.

3. In connection with the Corporation C Contribution, no rights in the property transferred to Corporation C will be retained.
4. The adjusted basis and the fair market value of the assets to be transferred to Corporation C will, in each instance, be equal to or exceed the sum of the liabilities to be assumed by Corporation C, if any, plus any liabilities to which the transferred assets are subject. See section 357(c).
5. Any liabilities to be assumed (within the meaning of section 357(d)) by Corporation C were incurred in the ordinary course of business and are associated with the assets to be transferred.
6. There is no indebtedness between Corporation C and its shareholders and there will be no indebtedness created in favor of Corporation C's shareholders as a result of the Corporation C Contribution.
7. Corporation C will be solvent (*i.e.*, the fair market value of assets will exceed liabilities) immediately after the Corporation C Contribution.
8. The Corporation C Contribution will occur pursuant to a plan agreed upon before the transaction in which the rights of the parties are defined.
9. There is no plan or intention on the part of Corporation C to redeem or otherwise reacquire any stock or indebtedness, if any, to be issued in the Proposed Transactions.
10. All exchanges in connection with the Corporation C Contribution will occur on approximately the same date.
11. Taking into account any issuance of additional shares of Corporation C's stock; any issuance of stock for services; the exercise of any Corporation C stock rights, warrants, or subscriptions; a public offering of Corporation C's stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of Corporation C to be received in the exchange, other than the disposition of Corporation C's stock transferred to Partnership B, the Corporation C Shareholders will collectively be in "control" of Corporation C within the meaning of section 368(c). See Rev. Rul. 59-259, 1959-2 C.B. 115, and section 1.351-1(a)(1) of the regulations.

12. Stock approximately equal to the fair market value of the property transferred to Corporation C will be received in exchange for the Corporation C Contribution.
13. A portion of the fair market value of the stock to be issued by Corporation C is allocable to the value of the insurance in force.
14. Corporation C will remain in existence and will retain and use the property transferred in the Corporation C Contribution in a trade or business.
15. There is no plan or intention by Corporation C to dispose of the property transferred in the Corporation C Contribution other than in the normal course of business operations.
16. Each of the parties to the Proposed Transactions will pay its own expenses, if any, incurred in connection with the Corporation C Contribution.
17. Neither Corporation C nor its shareholders are 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 received in the exchange will not be used to satisfy the indebtedness of such debtor.
18. Corporation C will not be a “personal service corporation” within the meaning of section 269A.
19. Corporation C will not be an investment company within the meaning of section 351(e)(1) and section 1.351-1(c)(1)(ii) of the regulations.
20. None of the stock to be issued by Corporation C is “section 306” stock within the meaning of section 306(c).
21. The total fair market value of the assets transferred to Corporation C will exceed the amount of any liabilities assumed, if any, (within the meaning of section 357(d) and taking into account the applications of Rev. Rul. 80-323, 1980-2 C.B. 124) by Corporation C in connection with the exchange. The fair market value of the assets of Corporation C will exceed the amount of its liabilities immediately after the exchange.
22. The Partnership B Contribution will qualify as a non-taxable contribution to a partnership under section 721(a).

23. At the time Corporation A enters into its respective reinsurance and New ASC Agreements with Corporation C, it intends that the agreements will renew automatically pursuant to the agreements' terms and no party has a plan or intention to terminate any of the agreements.
24. Any transitional services agreement entered into between Corporation C and New Investors will be on arm's length terms.

## RULINGS

Based solely upon the information submitted and the representations made, we rule as follows on the Proposed Transactions:

1. The transfer of assets by the Corporation C Shareholders, including reinsurance contracts and New ASC Agreements, in exchange for Corporation C stock, will constitute a transfer of property to a controlled corporation meeting the requirements of section 351.
2. No gain or loss will be recognized by Corporation C Shareholders on the transfer of the assets, including the Specified Line of Business, to Corporation C solely in exchange for Corporation C stock. Section 351(a).
3. The tax basis of the Corporation C stock received by the Corporation C Shareholders will be equal to the basis of the assets transferred in the exchange, reduced by the amount of liabilities, if any, deemed assumed by Corporation C in the Corporation C Contribution. Section 358(a)(1) and (d).
4. No gain or loss will be recognized by Corporation C on its receipt of assets from the Corporation C Shareholders in exchange for the Corporation C stock. Section 1032(a).
5. The basis of the assets received by Corporation C in the Corporation C Contribution will equal the tax basis of such assets in the hands of the Corporation C Shareholders immediately before the Corporation C Contribution. Section 362(a).
6. The holding period of each asset received by Corporation C in the Corporation C Contribution will include the holding period of such assets in the hands of the Corporation C Shareholders. Section 1223(2).

7. The subsequent transfer of the Corporation C stock received in the exchange by the Corporation C Shareholders to Partnership B will not cause the Corporation C Contribution to fail to qualify as a nontaxable transfer to a controlled corporation under section 351(a).

#### CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the Proposed Transactions under other provisions of the Internal Revenue Code or the regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that is 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.

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 this letter ruling.

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

Sincerely,

*Gerald B. Fleming*

Gerald B. Fleming  
Senior Technician Reviewer, Branch 2  
Office of Associate Chief Counsel  
(Corporate)

cc: