



of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2014-1, 2014-1 I.R.B. 15, regarding one or more significant issues under sections 332, 351, 355, 368, or 1036. The rulings contained in this letter only addresses one or more discrete legal issues involved in the transaction. This Office expresses no opinion as to the overall tax consequences of the transactions described in this letter or as to any issue not specifically addressed by the rulings below.

## FACTS

Parent corporation (the "Parent") is a domestic corporation and the common parent of an affiliated group of corporations that file a consolidated federal income tax return. The consolidated group includes both life insurance companies and corporations other than life insurance companies.

During a prior year, on Date 1, LifeCo demutualized and became a stock company owned by Parent. Currently, Parent indirectly owns LifeCo, which is a member of the Parent consolidated group. LifeCo is a domestic corporation that is taxed as a life insurance company under subchapter L of the Code.

Certain LifeCo policies in force at the time of its demutualization became a closed block of contracts. The closed block of contracts are entitled to receive policyholder dividends declared by the LifeCo board at the board's discretion. Additionally, LifeCo designated certain assets to support the regulatory closed block of policies (the "RCB"). The designated RCB assets are not kept in an account separate from LifeCo's other assets.

## PROPOSED TRANSACTION

For what are represented as valid business reasons, the taxpayer proposed the following transaction (the "Proposed Transaction"):

- (1) LifeCo and a subsidiary (the "Sub") will enter into a Reinsurance Agreement (the "Agreement"). Sub will either be a newly-formed wholly-owned corporation of LifeCo or an existing wholly-owned corporation of LifeCo that is part of the life insurance company subgroup of the Parent consolidated group.
- (2) LifeCo will transfer capital and surplus of \$a as well as assets and liabilities related to the RCB to the Sub.

The fair market value of the assets that will be transferred to the Sub will exceed the amount of assets that LifeCo would be required to pay in an arm's-length indemnity reinsurance transaction. Additionally, on the effective date of the Agreement (the "Effective Date"), the book value of the RCB assets transferred will be approximately \$b and the total amount of tax reserves transferred will be approximately \$c. Pursuant to the Agreement, LifeCo will cede and Sub will assume certain specified liabilities. LifeCo will transfer approximately d percent, which is less than 100 percent, of the insurance risk on the RCB business to Sub by conventional coinsurance on the Effective Date. Moreover, the Agreement provides LifeCo with recapture rights. At any time, LifeCo may elect to recapture, in full or in part, the reinsurance coverage provided by the Sub. If LifeCo elects to exercise such rights, the Sub is obligated to return any remaining RCB assets to LifeCo.

### RULINGS

Based solely on the information submitted and the representations set forth above, we rule as follows:

1. The tax treatment of the transfer of assets and liabilities in the arm's-length reinsurance portion of the Proposed Transaction will be determined in accordance with the provisions of subchapter L applicable to indemnity reinsurance.
2. Ruling 1 does not preclude the transfer of other assets in excess of the arm's-length reinsurance portion of the Proposed Transaction from qualifying under § 351.

### CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the proposed transaction under any provision of the Code and regulations or the tax treatment of any condition existing at the time of, or effects resulting from the proposed transaction that is not specifically covered by the above rulings. In particular, no opinion is expressed on the precise application of the provisions of Subchapter L to this transaction (i.e., the valuation and the determination of the amount of premiums and other consideration arising out of indemnity reinsurance and the valuation of LifeCo's decrease and Sub's increase in reserves.)

### PROCEDURAL STATEMENTS

This letter is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that this letter 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.

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

Sincerely,

GERALD B. FLEMING  
Senior Technician Reviewer, Branch 2  
(Corporate)

By: \_\_\_\_\_  
Gerald B. Fleming  
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Office of Associate Chief Counsel (Corporate)