

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201638004**
Release Date: 9/16/2016

Third Party Communication: None
Date of Communication: Not Applicable

Index Numbers: 1001.00-00, 368.06-00

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:CORP:B06
PLR-102991-16

Date:
June 16, 2016

Legend

X =

Y =

Z =

State X =

Dear :

This letter responds to your letter dated January 8, 2016, requesting a ruling on the Federal income tax consequences of the first two steps of the proposed transaction described below. The information submitted in that letter and subsequent correspondence 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. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

SUMMARY OF FACTS

X is a State X limited liability company that has elected to be treated as an S corporation. X is engaged in two groups of business. For the sake of convenience, these business groups are referred to as the “Retained Business” and the “Distributed Business.” For what X represents to be valid business purposes, it proposes the following plan (the “Restructuring”):

- (1) The X members will contribute all of their X equity units to Y, a newly-formed State X limited liability company, in exchange for all of the Y equity units.
- (2) X will elect to become, or by default will become, a disregarded entity or qualified subchapter S subsidiary for Federal tax purposes. After this step, Y expects to continue X’s S corporation election.
- (3) X will distribute the assets comprising the Retained Business to Y in a transaction that it expects to be disregarded for Federal income tax purposes. After this step, X would continue to hold the assets comprising the Distributed Business.
- (4) Y will transfer all of the equity units of X to Z, a newly-formed State X limited liability company, solely in exchange for all of the Z equity units. After this step, Z will hold only the equity units in X, which continues to hold the assets comprising the Distributed Business.
- (5) Y will distribute pro rata all of the equity units of Z to Y’s members in a transaction intended to qualify under section 355 of the Internal Revenue Code (the “Distribution”).

Z will elect to be treated as an S corporation effective on the day of the Distribution. Following the Restructuring, the former X members will own all of the equity units of two new S corporations – Y, which holds the Retained Business, and Z, which holds the Distributed Business.

REPRESENTATIONS

- (a) As a result of Steps 1 and 2, all of the equity units of Y were received by the X members in exchange for all of their X equity units, except for a *de minimis* amount of Y equity units, if any, issued by Y to facilitate its organization.
- (b) As a result of Steps 1 and 2, the same person or persons that own all of the X equity units immediately before Steps 1 and 2, will own all of the Y equity units immediately after Steps 1 and 2, in identical proportions.

- (c) Y will not hold any property or have any tax attributes immediately before Step 1, other than a *de minimis* amount of assets, if any, to facilitate its organization, and related tax attributes.
- (d) X will completely liquidate for U.S. Federal income tax purposes by reason of becoming a disregarded entity for U.S. Federal income tax purposes.
- (e) As a result of Steps 1 and 2, and immediately after Steps 1 and 2, no corporation other than Y will hold property that was held by X immediately before Steps 1 and 2.
- (f) Y will adopt an LLC operating agreement that is the same in all material respects as X's LLC operating agreement.
- (g) At the time of the Restructuring, none of X, Y or Z will have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire equity units in such entity.
- (h) In the Restructuring, Y will not succeed to the items described in section 381(c) of any corporation other than X.
- (i) Immediately following the Restructuring, the liabilities of X and any of its subsidiaries will be associated with the Distributed Business.

RULINGS

- (1) For purposes of determining whether Steps 1 and 2, viewed together, result in the realization of gain or loss under section 1001 (see Weiss v. Stearn, 265 U.S. 242 (1924)), or a reorganization under section 368(a)(1)(F) (see Rev. Rul. 72-206, 1972-1 C.B. 104), Steps 3 through 5 shall be disregarded.
- (2) For U.S. Federal income tax purposes, Steps 3 through 5 will be treated as a direct transfer of the Distributed Business by Y to Z in exchange for all of the equity units of Z and the assumption of associated liabilities, followed by the pro rata distribution by Y of all of the equity units of Z to Y's members.
- (3) X's S election will not terminate as a result of the completion of Steps 1 and 2, but continues for Y.

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. In particular, other than the above, no opinion is expressed about the U.S.

Federal income tax consequences of Steps 3 through 5. Furthermore, no opinion is expressed regarding whether Steps 1 and 2, viewed together, result in the realization of gain or loss under section 1001, or a reorganization under section 368(a)(1)(F).

PROCEDURAL INFORMATION

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,

Douglas C. Bates

Douglas C. Bates
Chief, Branch 4
Office of the Associate Chief Counsel
(Corporate)

cc: