

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

Number: **201718035**  
Release Date: 5/5/2017

[Third Party Communication:  
Date of Communication: Month DD, YYYY]

Index Number: 861.09-00, 861.09-06,  
861.09-07

Person To Contact:  
, ID No.

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Refer Reply To:  
CC:INTL:B03  
PLR-139092-16  
Date:  
February 03, 2017

TY:

CORP A =  
CORP B =  
  
CORP C =  
  
CORP D =  
COUNTRY =  
Z  
DATE 1 =

Dear :

This is in response to your representative’s letter dated December 19, 2016, requesting a ruling on behalf of CORP C that it be permitted to value its assets on the basis of the tax book value method of asset valuation for purposes of its taxable year.

The rulings contained in this letter are based upon information and representations submitted by CORP C 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.

CORP C, a domestic corporation, is a calendar year taxpayer that uses the accrual method as its overall method of accounting. CORP C utilized the fair market value method of asset valuation for taxable years prior to taxable year .

CORP C is wholly owned by CORP A. CORP A is a corporation created under the laws of COUNTRY Z. CORP A also wholly owns CORP B, the common parent of a group of affiliated corporations that files a consolidated U.S. federal income tax return. CORP B and CORP C are related persons within the meaning of Treas. Reg. § 1.861-8T(c)(2). Accordingly, the CORP B consolidated group also utilized the fair market value method of asset valuation for taxable years prior to . The CORP B consolidated group is simultaneously requesting to value its assets on the basis of the tax book value method.

On DATE 1, a date in calendar year , CORP B completed the acquisition of CORP D, the common parent of a U.S. consolidated group of corporations. For several years prior to DATE 1, the CORP D consolidated group utilized the tax book value method of asset valuation. As a result of the acquisition, the CORP D consolidated group members became members of the CORP B consolidated group and will be included in the CORP B consolidated federal income tax return starting from the day after DATE 1.

Section 864(e) provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income. Treas. Reg. §§ 1.861-8 through 1.861-12 and Treas. Reg. §§ 1.861-8T through 1.861-13T set forth the rules specific to the allocation and apportionment of interest expense. Treas. Reg. 1.861-9T(g)(1)(ii) provides that a taxpayer may elect to determine the value of its assets on the basis of either tax book value or the fair market value of its assets. Treas. Reg. § 1.861-8T(c)(2) provides that, once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Based solely on the information submitted and the representations made, pursuant to Treas. Reg. § 1.861-8(f)(2) and Treas. Reg. §§ 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), CORP C may value its assets on the basis of the tax book value method of asset valuation for purposes of apportioning interest expense for all operative sections, including sections 199 and 904 of the Code, for its taxable year and future years.

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 representatives.

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,

Jeffrey L. Parry  
Senior Counsel, Branch 3  
(International)