

Internal Revenue Service

Department of the Treasury
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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:CORP:B03
PLR-127777-16
Date:
February 23, 2017

Parent/Target =

Subsidiary/Acquiring =

Corp 1 =

Corp 2 =

Shareholder 1

Shareholder 2

State X =

a =

Dear :

This letter responds to your September 1, 2016, request for rulings regarding certain federal income tax consequences of a series of proposed transactions (collectively, the

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“Proposed Transaction”). The material information submitted in that request and in subsequent correspondence is summarized below.

The rulings contained in this letter are based on facts and representations submitted on behalf of 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 other data may be required as part of the audit process.

Summary of Facts:

Parent/Target, a State X corporation, is owned by two individuals, Shareholder 1 and Shareholder 2, who are married. Parent/Target owns greater than 80 percent of the stock of Corp 1 and Corp 2. Corp 1 and Corp.2 are members of Parent/Target’s consolidated group. Parent/Target also owns a (less than 80) percent of the stock of Subsidiary/Acquiring. Accordingly, Subsidiary/Acquiring is not a member of Parent/Target’s consolidated group.

Proposed Transaction:

Parent/Target has proposed the following transaction:

- (i) Parent/Target will exchange all of its common stock in Subsidiary (Old Stock) in exchange for voting common stock in Subsidiary (New Stock). Subsidiary/Acquiring will neither assume any of Parent/Target’s liabilities nor receive any of Parent/Target’s assets subject to liabilities. Shareholder 1 may contribute cash to the capital of Parent/Target to enable it to pay off liabilities. Alternatively, Shareholder 1 may pay or assume liabilities of Parent/Target.
- (ii) Parent/Target will convert to a limited liability company under State X law. No election will be made for Parent/Target to be taxed as a corporation.
- (iii) Shareholder 1 and Shareholder 2 may transfer some of their Subsidiary/Acquiring stock to tax exempt organizations. There is no plan to make these transfers at this time.

Rulings:

- (1) Provided steps (i), and (ii), above, qualify as a reorganization under section 368(a)(1), the distribution of Corp 1 and Corp 2 stock (“Boot”) will constitute a distribution of property with respect to the stock of Parent/Target to which section 301 applies. (section 356(a) and § 1.356-1(a)). The excess, if any, of the amount

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of Boot distributed with respect to a share of Parent/Target stock over the amount of such distribution treated as a dividend will be applied against and reduce the shareholder's adjusted basis in the share, and any remaining excess will be treated as gain from the sale or exchange of property (section 301(c)(2) and (c)(3)).

- (2) Provided steps (i), and (ii), above, qualify as a reorganization under section 368(a)(1), gain shall be recognized to Parent/Target as if it sold the Boot to its shareholders at its fair market on the date of the reorganization (section 361(c)(2)).

Caveats:

Except as specifically provided herein, no opinion is expressed or implied concerning the tax treatment of the proposed transaction under any provisions 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 are not specifically covered by the above rulings. In particular, no opinion is expressed as to whether section 368(a)(1) applies to steps (i) and, (ii). Section 6.11 of Rev. Proc. 2017-1. Also, no opinion is expressed as to the tax consequences of step (iii).

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 (PLR-127777-16) of this letter ruling.

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In accordance with the Power of Attorney on file with this office, copies of this letter are being sent to your authorized representatives.

Sincerely yours,

Isaac W. Zimbalist
Senior Technician Reviewer, Branch 3
Office of Associate Chief Counsel (Corporate)

cc: