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Person To Contact:
, ID No.

Telephone Number:

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LEGEND:

Parent =

Sub 1 =

Distributing 2 =

Distributing 1 =

LLC 1 =

LLC 2 =

LLC 3 =

State X =

State Y =

Business A =

Business B =

Business B Contracts =

Dear :

This letter responds to your May 19, 2016, request for rulings regarding certain federal income tax consequences of a series of proposed transactions (collectively, the “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.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2017–1, 2017–1 I.R.B. 1, regarding one or more significant issues under sections 332, 351, 355, 368, or 1036. The rulings contained in this letter only address 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.

Summary of Facts

Parent is a State X corporation and the common parent of a consolidated group (the “Parent Group”). Parent’s stock is publicly traded and widely held. Parent, Sub 1, Distributing 2 and Distributing 1 are members of the Parent Group. Unless otherwise

stated, each entity described below is treated as a corporation for federal income tax purposes.

Parent wholly owns LLC 1, a State X limited liability company that, for federal income tax purposes, is disregarded as an entity separate from Parent. LLC 1, in turn, wholly owns Sub 1, a State X corporation. Sub 1 wholly owns (i) Distributing 2, a State Y limited liability company that has elected to be treated as a corporation for federal income tax purposes, (ii) LLC 2 and (iii) LLC 3. LLC 2 and LLC 3 are both State X limited liability companies that, for federal income tax purposes, are disregarded as entities separate from Sub 1. Distributing 2, in turn, wholly owns Distributing 1.

Distributing 1 is engaged in Business A and Business B. Certain operational and management activities of Business A and Business B are performed by employees of certain corporations, which are indirectly owned by Parent but which are not members of Distributing 1's separate affiliated group. These activities are performed pursuant to contractual arrangements among Parent and its affiliates, (as defined in section 1504(a) without regard to section 1504(b), except the term "stock" includes nonvoting stock described in section 1504(a)(4)) (each, a "Parent Affiliate", and these arrangements, the "Service Arrangements"). The Service Arrangements are subject to a framework established to ensure that the activities performed for Distributing 1 are properly governed and supervised by Distributing 1, adhere to Distributing 1's policies and practices and otherwise meet Distributing 1's expected performance levels.

Following the Proposed Transaction, Distributing 1 will continue the active conduct of Business A utilizing the same Service Arrangements as are currently in effect.

Controlled, and, after the Proposed Transaction, LLC 2, will directly employ each person who is currently employed by Distributing 1 and dedicated to Business B. In addition, Controlled and, after the Proposed Transaction, LLC 2 will engage certain corporations, which are indirectly owned by Parent but not all of which are members of Sub 1's separate affiliated group, to conduct on its behalf pursuant to the Service Arrangements various operational activities of Business B. Each such corporation's performance under the Service Arrangements will be subject to oversight by Controlled or LLC 2, as applicable.

Business B operations involve the entry into Business B Contracts, which constitute the primary assets of Business B. Certain of the Business B Contracts are entered into by Distributing 1 directly with unrelated parties ("External Business B Contracts"). More commonly, Parent Affiliates enter into contracts with unrelated parties at the direction of Distributing 1, and offsetting Business B Contracts are simultaneously entered into by Distributing 1 and such Parent Affiliates ("Affiliate

Business B Contracts”). As a result of the Proposed Transaction, LLC 3 will become the party common to all existing and future Affiliate Business B Contracts, including with respect to External Business B Contracts (the “Intercompany Arrangements”).

Proposed Transaction

For compelling business reasons, the most significant of which are new regulatory requirements that apply with respect to Distributing 1’s conduct of Business B, Distributing 1 proposes to separate Business B from its remaining businesses by consummating the Proposed Transaction described below:

- (i) Distributing 1 will form a new State X corporation (“Controlled”) for the sole purpose of facilitating the Proposed Transaction.
- (ii) Distributing 1 will contribute the following assets and liabilities associated with Business B to the capital of Controlled (the “Contribution”): (i) all Business B Contracts other than certain External Business B Contracts, (ii) the employees of Distributing 1 who are dedicated to the conduct of Business B and (iii) any ancillary assets and liabilities of Business B.
- (iii) Distributing 1 will distribute all of the stock of Controlled to Distributing 2 (the “First Distribution”). The Contribution and the First Distribution together are intended to qualify as a reorganization under section 368(a)(1)(D) and a distribution to which section 355 applies.
- (iv) Distributing 2 will distribute all of the Controlled stock to Sub 1 (the “Second Distribution”). The Second Distribution is intended to qualify as a distribution to which section 355 applies.
- (v) Controlled will merge with and into LLC 3, with LLC 3 surviving (the “Merger”). The Merger is intended to constitute a complete liquidation to which sections 332(a) and 337 apply.
- (vi) LLC 3 and Distributing 1 will enter into one or more Business B Contracts with respect to the then-existing External Business B Contracts retained by Distributing 1.
- (vii) LLC 3 will transfer to LLC 2 all of the employees, assets and liabilities of Business B (other than Business B Contracts).

Representations

Parent makes the following representations:

- (a) Following the Distributions, Controlled and, after the Merger, Sub 1 (through its disregarded subsidiaries) will continue the active conduct of Business B, independently and with its separate employees and pursuant to the Service Arrangements.
- (b) After the Proposed Transaction, (i) Sub 1 does not have any plan or intention to transfer either: the stock of Distributing 2, or any of the assets acquired by Sub 1 in the Merger, other than in the ordinary course of business, (ii) Distributing 2 does not have any plan or intention to transfer the stock of Distributing 1, and (iii) Distributing 1 does not have any plan or intention to transfer any of its assets, other than in the ordinary course of business.
- (c) At the time of the First Distribution, there will not be an excess loss account in the stock of Distributing 1.
- (d) At the time of the Second Distribution, there will not be an excess loss account in the stock of Distributing 2.

Rulings

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

- (1) Distributing 1's receipt of services pursuant to the Service Arrangements will not prevent Business A from qualifying as an active trade or business of Distributing 1 for purposes of section 355(b). Rev. Rul. 79-394, 1979-2, C.B. 141, amplified by Rev. Rul. 80-181, 1980-2 C.B. 121.
- (2) Neither (1) the receipt of services by Distributing 1 (prior to the Contribution), Controlled (after the Contribution) or Sub 1 (after the Merger, through its disregarded subsidiaries) pursuant to the Service Arrangements, nor (2) the Intercompany Arrangements will prevent Business B from qualifying as an active trade or business of Controlled for purposes of Section 355(b). Rev. Rul. 79-394, 1979-2, C.B. 141, amplified by Rev. Rul. 80-181, 1980-2 C.B. 121.
- (3) The qualification of (i) the Contribution and the First Distribution as a reorganization described in sections 368(a)(1)(D) and 355, and (ii) the Second Distribution as a distribution described in section 355, in each case, will not be affected by the Merger.

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 sections 355 and/or 368(a)(1)(D) applies to steps (ii), (iii) and, (iv), above. Section 6.03 of Rev. Proc. 2017-1. Also, no opinion is expressed as to the tax consequences of steps (v), (vi), and (vii).

Procedural Statements

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) 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, a taxpayer filing its return electronically may satisfy this requirement by attaching a statement to the return that provides the date and control number (PLR-118254-16) of this letter ruling.

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,

Richard M. Heinecke
Chief, Branch 5
Office of Associate Chief Counsel (Corporate)