

Doctrine =

Agreement 1 =

Agreement 2 =

a =

Opinion =

Date 1 =

Firm =

Dear :

This letter responds to your February 28, 2020 request (“Request”), submitted by your authorized representatives, for a ruling under section 1504(a) of the Internal Revenue Code (“Code”). The information provided in that letter and in later correspondence is summarized below.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalties 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 a ruling, it is subject to verification on examination.

FACTS

Parent wholly owns Sub and Sub owns all the interests in Management Co. Parent and Sub are each a State X corporation and Management Co is a State Y limited liability company. Parent is the common parent of an affiliated group of corporations filing a consolidated federal income tax return (the “Parent Group”). Sub is a member of the Parent Group.

PC is a State Y professional corporation engaged in the practice of Profession and is subject to State Y’s Doctrine. This Doctrine provides that PC may only engage in the practice of Profession through one or more Practitioners. This Doctrine further provides that the shares of a corporation engaged in the practice of Profession generally may only be issued to, held by, or transferred to one or more Practitioners. In the case of PC the Practitioner that owns all of its stock is licensed to practice Profession in State Y (“Practitioner Shareholder”). Parent does not currently file tax returns on a consolidated basis with PC.

PC, through its Practitioner employees, conducts the aspects of its businesses that constitute engagement in the practice of Profession. Under the terms of Agreement 1

between Management Co, on the one hand, and PC, on the other, Management Co performs all administrative and support services on behalf of PC in exchange for a fee. Under the structure established in Agreement 1, Management Co is the only entity entitled to any economic benefit resulting from PC's operations. Finally, Management Co also manages PC to the extent that such management does not constitute engagement in the practice of Profession.

The Practitioner Shareholder holds legal title to all the issued and outstanding shares of PC. The Practitioner Shareholder is party to Agreement 2. Pursuant to the provisions of Agreement 2, the Practitioner Shareholder may not sell, assign, transfer, gift, pledge, hypothecate, encumber or otherwise dispose of, whether voluntarily, involuntarily, by operation of law or otherwise, any shares of the stock of PC. If the Practitioner Shareholder violates this restriction, the stock automatically transfers to a designated transferee (the "Designated Transferee"), without any further action by the Practitioner Shareholder, for the nominal amount of \$a per share. Any such Designated Transferee is selected by Parent and will be a Practitioner permitted under State Y's Doctrine to directly hold the stock of PC. Agreement 2 further prohibits the Practitioner Shareholder from authorizing, approving or declaring any dividend or other distribution with respect to its stock or issue additional equity interests or rights to acquire additional equity interests.

Parent received Opinion, dated Date 1, from Firm that the corporate structure described in the Request (and summarized in this letter) would not violate State Y's Doctrine.

REPRESENTATIONS

Parent, on behalf of Sub, makes the following representations:

- (a) PC has never declared nor paid any dividends, nor made other distributions, to any shareholder.
- (b) To the best of Sub's knowledge, PC does not intend to declare or pay any dividends or make any other distributions, to any shareholder, except for distributions to Management Co or other members of the Parent Group. Sub intends to prevent PC from paying any dividends or making any other distributions to any other shareholder.
- (c) In the event the PC shares are transferred to a Designated Transferee pursuant to Agreement 2, such Designated Transferee will be required to execute a new Agreement 2 having terms substantially similar to the existing Agreement 2.
- (d) The legal arrangements created by Agreement 2 are valid and legally enforceable under applicable law.
- (e) Applicable law prohibits Sub only from: (i) practicing Profession, (ii) employing Practitioners to practice Profession, or (iii) controlling Practitioners' Professional

decisions. As a result, applicable law prohibits only legal, and not beneficial, ownership of stock in PC by Sub.

- (f) PC is not: (i) a section 501 tax-exempt corporation, (ii) an insurance company subject to tax under section 801 of the Code, (iii) a foreign corporation, (iv) a regulated investment company, (v) a real investment trust, (vi) a domestic international sales corporation under section 992 of the Code, or (vii) an S corporation.

RULING

Based on the facts and information submitted and the representations made, we rule that PC is a member of the Parent Group (within the meaning of section 1504(a)(1) of the Code) and will be permitted to join in the filing of a consolidated federal income tax return (within the meaning of sections 1501 and 1502 and the regulations thereunder) with the Parent Group. Section 1504(a); Rev. Rul. 84-79, 1984-1 C.B. 190.

CAVEATS

We express no opinion about the tax treatment of the arrangements under other provisions of the Code or regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the arrangements that are not specifically covered by the above ruling. Furthermore, no opinion is expressed concerning the treatment of any arrangements in taxable years for which income tax returns have already been filed.

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.

In accordance with the Power of Attorney on file with this office, copies of this letter are 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,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel
(Corporate)

cc: