



Business Z =

Country A =

Country B =

Country C =

Country D =

Country E =

State A =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Year 1 =

Dear :

This letter responds to your letter dated September 25, 2020, and supplemented by additional letters dated January 22, 2021 and March 1, 2021, submitted on behalf of Taxpayer and its affiliates (the "PLR Submission"), requesting a ruling on certain federal income tax consequences of a series of transactions (the "Proposed Transactions," as defined below). The material information submitted in that request and subsequent correspondence is summarized below.

This letter is issued pursuant to section 6.03(2) of Rev. Proc. 2020-1, 2020-1 I.R.B. 1, regarding one or more significant issues under section 368 of the Internal Revenue Code (the "Code"). The ruling in this letter only address one or more significant issues involved in the transactions. 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 ruling below.

The ruling contained in this letter is based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support

of the request. Verification of the information, representations, and other data may be required as part of the audit process.

## **Summary of Facts**

### Organizational Structure

Taxpayer, a State A corporation, is the common parent of a worldwide group of foreign and domestic affiliates that include corporations and entities disregarded as separate from their sole regarded owners for U.S. federal income tax purposes (each, a “disregarded entity”). Immediately prior to the Proposed Transactions, Taxpayer owned all of the membership interests in DE1, a State A entity treated as a disregarded entity. DE1 owned: (i) all of the membership interests in DE2, a Country A entity treated as disregarded entity; and (ii) all of the membership interests in FSub1, a Country B entity treated as a corporation for U.S. federal income tax purposes.

DE2 owned all of the membership interests in Target, a Country A entity treated as a corporation for U.S. federal income tax purposes.

FSub1 owned all of the membership interests in Acquiring, a Country B entity treated as a disregarded entity.

### Background

Taxpayer conducts three heavily regulated lines of business, Business X, Business Y, and Business Z. In Year 1, Taxpayer indirectly acquired Target, a company engaged in Business Z that conducted the majority of its business in Country A. In the years following the acquisition, Business Z experienced significant global growth and Target now has extensive operations in Countries C, D, and E, conducted through branches in each country. Going forward, Business Z is expected to continue growing internationally. Because Target is a Country A entity with significant non-Country A operations, Target’s business activities are subject to a strict and complex Country A regulatory regime in addition to each local regulatory regime for the branches in Countries C, D, and E. This situation presents considerable cost and administrative burden.

The Proposed Transactions are intended to reduce these costs by ensuring Target’s non-Country A operations are not subject to Country A’s regulatory regime, to consolidate a greater percentage of Business Z’s assets under one entity (*i.e.*, Acquiring), and to increase business efficiency. Because Target has global operations and Business Z is a heavily regulated line of business, the completion of the Proposed Transactions may take a significant period of time (discussed below).

## Proposed Transactions

For the reasons discussed above, Taxpayer proposes to undertake the following Proposed Transactions in the order listed below.

Step 1: On Date 1, DE1 contributed all of the membership interests in DE2 to FSub1.

Step 2: Acquiring will begin establishing new branches in Countries A, C, D, and E. This step will be completed on a rolling basis based on the requirements for establishing branches in each jurisdiction.

Step 3: On Date 2, FSub1 will contribute all of the membership interests in DE2 to Acquiring.

Step 4: Acquiring, directly and through its newly established branches, will begin engaging in Business Z as soon as practically possible. As a result of engaging in Business Z, Acquiring will convert to a corporation for U.S. federal income tax purposes. Treas. Reg. § 301.7701-2(b).

Step 5: Through regulatory and other processes, the business of Target and its branches will be transferred to Acquiring and the foreign branches of Acquiring (the "Liquidating Transfers").

Step 6: Following the Liquidating Transfers, the foreign branches of Target will be deauthorized and closed.

Step 7: Target will legally dissolve or file an entity classification election to be treated as a disregarded entity (collectively, with steps 2-6, the "Target Reorganization").

Due to the global nature of Business Z, one or more regulatory authorities in each jurisdiction must approve various aspects of the Proposed Transactions. Acquiring will be required to obtain authorization to establish a branch in each jurisdiction that will receive assets from Target in the Liquidating Transfers. The Liquidating Transfers cannot occur in any of the jurisdictions until authorization in that jurisdiction is obtained. Taxpayer expects that all branches will be established and authorized in each jurisdiction by Date 3.

Once the relevant branches are established, authorized, and operational, the transfer of Target's business in each jurisdiction to the relevant branch of Acquiring is anticipated to take a significant amount of time. Among other requirements, Target will be subject to lengthy, multi-step court approval and regulatory processes in Countries A and D, in order to effectuate the Liquidating Transfers to the new branches Acquiring formed in those countries. The approval process in Country A will culminate in a court order approving the Proposed Transactions. The court order will be final and binding on the parties involved, including affected third parties. This court order is expected to be

issued by Date 4. In Countries C and E, Target will transfer its operations to the branches formed by Acquiring on a contract-by-contract basis, and this process is also expected to take a significant period of time and may implicate regulatory processes in each jurisdiction.

Based on the above, Taxpayer estimates that the Proposed Transactions will take approximately 5 years to effectuate. Taxpayer is committed to complete the Proposed Transactions as quickly and reasonably possible for substantial economic reasons, including avoiding duplicative costs, administrative burdens, inefficient operations, potential reputational damage, and other economic and practical consequences.

### **Representations**

Taxpayer has made the following representations with respect to the Target Reorganization:

1. Taxpayer estimates it will take approximately 5 years to complete the Target Reorganization.
2. The Board of Directors of the parties to the Proposed Transactions has given authorization for Taxpayer to move forward with the restructuring of Business Z. The executive team at Taxpayer, with the assistance of their advisors, has designed the step plan as set forth in the PLR Submission to accomplish the business purposes of reorganizing Business Z. The steps set forth in the PLR Submission, and described above, represent the constituent parts of the plan of reorganization of Target.
3. Taxpayer will execute the Proposed Transactions as soon as legally and practicably possible. Taxpayer will not prolong the Proposed Transactions under the plan of reorganization and will proceed with the Proposed Transactions in a commercially reasonable manner in accordance with the direction of regulators.
4. Other than the issue of whether the plan of reorganization requirement under Treas. Reg. § 1.368-1(c) is satisfied with respect to the Target Reorganization, the Target Reorganization will meet all requirements of a tax-free reorganization under section 368(a).

### **Ruling**

Based solely on the information submitted and representations made, we rule that the steps of the Target Reorganization each will be treated as occurring in pursuance of a plan of reorganization as required by Treas. Reg. § 1.368-1(c).

**Caveats**

No opinion is expressed or implied about the tax treatment of the Proposed Transactions under any other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that are not specifically covered by the above ruling.

**Procedural Statements**

The ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be sued 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 ruling 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 on and control number (PLR-121210-20) of the letter ruling.

Sincerely,

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Brian R. Loss  
Office of Associate Chief Counsel (Corporate)  
Senior Technician Reviewer, Branch 4

cc: