

**Internal Revenue Service**

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:01

PLR-113230-20

Date:

November 17, 2020

Parent Owner =

Parent =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

Sub 6 =

Sub 7 =

Sub 8 =

DE =

Business A =

Business B =

Date 1 =

Year 1 =

a =

b =

c =

d =

e =

Dear :

This letter responds to your authorized representatives' letter dated May 11, 2020, requesting rulings on certain federal income tax consequences of a series of proposed transaction (the "Proposed Transaction"). The information provided in that letter and in subsequent correspondence is summarized below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer 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.

This letter and one of the rulings contained therein are issued pursuant to section 6.03(2)(a) of Rev. Proc. 2020-1, 2020-1 I.R.B. 1, regarding a significant issue under section 368. The rulings contained in this letter only address one or more discrete legal issues involved in the Proposed Transaction.

### **Summary of Facts**

Parent Owner is a domestic partnership that owns all of the stock of Parent. Parent is the common parent of a consolidated group (the "Parent Group"). Each of Sub 1, Sub 2, Sub 3, Sub 4, Sub 5, Sub 6, and Sub 7 is, and Sub 8 is or was (prior to any Deconsolidation Event, as defined *infra*) a member of the Parent Group. The Parent Group is engaged in Business A, conducted by Sub 5 and its subsidiaries, and Business B, conducted by Sub 8 and its subsidiaries.

Prior to the Proposed Transaction and any Deconsolidation Event, Parent owned all of Sub 1. Sub 1 owned all of Sub 2. Sub 2 owned all of Sub 3 and Sub 4. Sub 3 owned approximately a percent of Sub 8's outstanding common stock. Sub 4 owned all of Sub 5. Sub 5 owned all of Sub 6, Sub 7, and certain other subsidiaries. Sub 6 owned approximately b percent of Sub 8's outstanding common stock. Sub 7 owned approximately c percent of Sub 8's outstanding common stock and all of the equity of DE, an entity disregarded from its sole owner for federal income tax purposes (a "disregarded entity"). Through DE, Sub 7 owned an additional approximately d percent of Sub 8's outstanding common stock. The remaining approximately e percent of Sub 8's outstanding common stock is publicly traded. Collectively, members of the Parent Group owned more than 80% of Sub 8's outstanding common stock.

As a result of past restructurings, Sub 5 has deferred intercompany gain under Treas. Reg. § 1.1502-13 (the "DIG"). Prior to Date 1, Sub 5 owned all of Sub 8. The DIG resulted from Sub 5's distribution of a portion to the stock of Sub 8 (the "DIG Stock") to Sub 4 in a transaction to which section 311(b) of the Code applied (the "Year 1 Distribution"). The DIG Stock will, until the Downstream Merger (defined in Step 12, *infra*), be owned within the Parent Group. The DIG has not been taken into account under Treas. Reg. § 1.1502-13.

Prior to the Proposed Transaction, certain transactions with respect to the stock of Sub 8 may cause Sub 8 to no longer be a member of the Parent Group (a "Deconsolidation Event").

### **Proposed Transaction**

Parent intends to engage in the Proposed Transaction for what are represented to be valid business reasons. Step 1 through Step 6 of the Proposed Transaction may occur in a different order than presented. The relevant steps of the Proposed Transaction are set forth below:

- 1) Sub 6 and Sub 7 will each liquidate into its respective owner (the "Sub 6 Liquidation" and the "Sub 7 Liquidation," respectively). Each liquidation will be effected by either a state-law merger of the subsidiary into its sole owner or by converting the subsidiary into a limited liability company ("LLC") that is treated as a disregarded entity (such a transaction, a "Liquidating Transaction").
- 2) Sub 5 and certain of its subsidiaries (other than Sub 8 and, potentially, certain other subsidiaries) will each liquidate into its respective owner in a Liquidating Transaction (the "Sub 5 Liquidations"). If the liquidation of Sub 5 is effected by converting Sub 5 into an LLC, then the resulting LLC will distribute all of its stock of Sub 8 and its interest in DE, and may distribute the stock of one or more corporate subsidiaries (the "Distributed Subsidiaries"), to Parent, through any disregarded entities as necessary, in a transaction or transactions intended to be disregarded for federal income tax purposes. This distribution will occur after the completion of Step 3 through Step 7.
- 3) Sub 4 will liquidate into its owner in a Liquidating Transaction (the "Sub 4 Liquidation").

- 4) Sub 3 will liquidate into its owner in a Liquidating Transaction (the “Sub 3 Liquidation”). If the liquidation of Sub 3 is effected by converting Sub 3 into an LLC, then the resulting LLC will distribute all of its stock of Sub 8 to Parent, through any disregarded entities as necessary, in a transaction or transactions intended to be disregarded for federal income tax purposes. This distribution will occur after the completion of Step 3 through Step 6.
- 5) Sub 2 will liquidate into its owner in a Liquidating Transaction (the “Sub 2 Liquidation”).
- 6) Sub 1 will liquidate into its owner in a Liquidating Transaction (the “Sub 1 Liquidation”).
- 7) One or more disregarded entities owned by Sub 5 may elect to be classified as a corporation for federal income tax purposes.
- 8) Parent Owner will form New Parent, a domestic corporation. Parent Owner will then contribute all of the stock of Parent to New Parent in exchange for all of the stock of New Parent.
- 9) New Parent will form Parent LLC, an LLC treated as a disregarded entity. Parent will then merge with and into Parent LLC, with Parent LLC surviving (together with Step 8, the “Parent Reorganization”).
- 10) Parent LLC will distribute all of its stock of Sub 8 and its interests in DE 1, and may distribute the stock of one or more Distributed Subsidiaries, to New Parent in a transaction intended to be disregarded for federal income tax purposes.
- 11) New Parent will sell or otherwise dispose of all of the equity of Parent LLC.
- 12) Sub 8 will form Merger LLC, an LLC treated as a disregarded entity. New Parent will then merge with and into Merger LLC, with Merger LLC surviving (the “Downstream Merger”).

### **Representations**

Parent has made the following representations in connection with the Proposed Transaction:

- 1) Each of the Sub 1 Liquidation, Sub 2 Liquidation, Sub 3 Liquidation, Sub 4 Liquidation, Sub 5 Liquidations, Sub 6 Liquidation, and Sub 7 Liquidation will qualify as a liquidation under section 332.
- 2) The Parent Reorganization is a reorganization described in section 368(a)(1)(F) and will qualify as a reverse acquisition within the meaning of Treas. Reg. §1.1502-75(d)(3).
- 3) But for the issue of whether the Downstream Merger will satisfy the continuity of business enterprise requirement under Treas. Reg. §§ 1.368-1(b) and (d), the Downstream Merger is a reorganization described in section 368(a)(1)(A) and will qualify as a reverse acquisition within the meaning of Treas. Reg. § 1.1502-75(d)(3).

- 4) Sub 8 will qualify for an automatic waiver pursuant to Rev. Proc. 2002-32, 2002-20 I.R.B. 959, and intends to request such relief in the event of a Deconsolidation Event.
- 5) The Parent Group will not terminate at any time before the effective date of the Downstream Merger.
- 6) The Parent Group holds, and will continue to hold, the DIG Stock until the effective date of the Downstream Merger.
- 7) Transactions taken with respect to the stock by Sub 8, including any transactions resulting in a Deconsolidation Event, will be undertaken for valid business reasons.
- 8) The effects of the Year 1 Distribution have not previously been, and no event would have resulted in the Year 1 Distribution being, reflected, directly or indirectly, on the Parent Group's consolidated return.
- 9) The Parent Group has not derived, and no taxpayer will derive, any federal income tax benefit from the Year 1 Distribution that gave rise to the DIG.

### **Rulings**

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

- 1) Provided that Sub 8 requests relief pursuant to Rev. Proc. 2002-32, 2002-20 I.R.B. 959, in the event of a Deconsolidation Event, the DIG is redetermined to be excluded from gross income under Treas. Reg. § 1.1502-13(c)(6)(ii)(D).
- 2) The Downstream Merger will satisfy the continuity of business enterprise requirement under Treas. Reg. §§ 1.368-1(b) and (d), notwithstanding any Deconsolidation Event.

### **Caveats**

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of the Proposed Transaction or any completed transaction or item discussed or referenced in this letter.

### **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, a copy of this letter is being sent to your authorized representative.

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-113230-20) of this letter ruling.

Sincerely,

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Austin Diamond-Jones  
Senior Technician Reviewer, Branch 1  
Office of Associate Chief Counsel (Corporate)

cc: