

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

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Refer Reply To:
CC:CORP:B03
PLR-113076-21
Date:
December 10, 2021

Legend

Taxpayer =

DE1 =

DE2 =

DE3 =

Business A =

Business B =

Private Equity =

Partnership =

Date 1 =

Date 2 =

Year =

c =

Dear :

This letter responds to the letter dated August 21, 2021, submitted on behalf of Taxpayer and its shareholders requesting rulings on certain federal income tax consequences of distributions to shareholders, as discussed below. The material information submitted in that request and subsequent correspondence is summarized below.

The rulings contained in this letter are 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 for rulings. Verification of the information, representations, and other data

Summary of Facts

Taxpayer, an S corporation, has operated Business A since Year. Business A has also been operated by DE2, a disregarded entity owned by DE1, which is owned by Taxpayer. Other disregarded entities owned by DE2 also operate Business A. Taxpayer has also operated Business B through DE3, a disregarded entity wholly owned by DE1. Other disregarded entities held by DE1, directly or indirectly, also operate Business B.

On Date 1, DE1, DE2, and Partnership executed a contribution agreement pursuant to which an affiliate of Private Equity, an unrelated private equity firm, and others contributed cash to Partnership for an equity interest in Partnership. Pursuant to the same agreement, DE1 contributed all the issued and outstanding membership interests in DE2 to Partnership in exchange for an equity interest in Partnership and the cash contributed to Partnership by Private Equity (with the exchange constituting the "Disposition"). The cash received by DE1 was and continues to be invested primarily in U.S. treasury bonds.

On Date 2 (2019), Taxpayer adopted a plan of partial liquidation. About c percent of the assets of Business A were distributed to shareholders by the end of 2020.

Pursuant to an agreement among Taxpayer and its shareholders, Taxpayer is obligated to make cash distributions each quarter to its shareholders in order to allow each shareholder to pay federal, state, and local income taxes (including estimated taxes) on such owner's allocable share of Taxpayer's taxable income.

Ruling

Distributions by Taxpayer to its shareholders to pay federal, state, and local income taxes (including estimated taxes) on such owner's allocable share of Taxpayer's taxable income are not considered to be distributions in partial liquidation. (Rev. Rul. 77-375, 1977-2 C.B.106, and Rev. Rul. 77-166, 1971-1 C.B. 90.)

Caveats

No opinion is expressed as to whether the Disposition qualifies as a partial liquidation. Also, no opinion is expressed about the tax treatment of the Disposition or events following the Disposition 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 Disposition 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.

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 returns that provides the date and control number (PLR-113076-21) of this ruling letter.

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

Sincerely,

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

cc: