

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

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Person To Contact:

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PLR-118149-23

Date:

December 21, 2023

Parent Owner =

Parent =

Sub 1 =

Sub 2 =

Sub 3 =

DE 1 =

DE 2 =

DE 3 =

DE 4 =

DE 5 =

DE 6 =

DE 7 =

DE 8 =

DE 9 =

DE 10 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

a =

b =

c =

d =

e =

Business A =

Business B =

Dear :

This letter responds to your authorized representatives' letter dated September 6, 2023, requesting rulings on certain federal income tax consequences of a series of transactions (the "Completed 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 herein are issued pursuant to section 6.03(2) of Rev. Proc. 2023-1, 2023-1 I.R.B. 1, regarding a significant issue under section 368 of the Code. The rulings contained in this letter only address one or more discrete legal issues involved in the Completed Transaction.

This letter supersedes PLR-113230-20, and PLR-113230-20 is withdrawn.

Summary of Facts

The following is a description of the facts that existed immediately prior to the Completed Transaction.

Parent Owner is a domestic partnership that owned all of the outstanding stock of Parent. Parent was the common parent of a consolidated group (the “Parent Consolidated Group”). The Parent Consolidated Group was engaged in Business A, conducted by DE 8 and its subsidiaries. Sub 1, a domestic corporation that was not a member of the Parent Consolidated Group after Date 2, and its subsidiaries conducted (and continue to conduct) Business B.

Parent owned all the equity of DE 1, DE 2, and DE 3, each a domestic entity disregarded as separate from its owner for federal income tax purposes (a “disregarded entity”). Parent also owned a percent of the outstanding common stock of Sub 1.

DE 1 owned b percent of the outstanding common stock of Sub 1.

DE 3 owned all the equity of DE 4, a domestic disregarded entity.

DE 4 owned all the equity of DE 5, DE 6, and DE 7, each a domestic disregarded entity.

DE 5 owned c percent of the outstanding common stock of Sub 1.

DE 6 owned all the equity of DE 8, a domestic disregarded entity.

DE 8 owned all the equity of DE 9, a domestic disregarded entity, and various other corporate subsidiaries and disregarded entities, including Sub 3, a domestic corporation.

DE 9 owned all the equity of DE 10, a domestic disregarded entity.

DE 10 owned all the equity of Sub 2, a domestic entity treated as a corporation for federal income tax purposes. Sub 2 owned certain assets that are used in and relevant to the operation of Business B by Sub 1.

The remaining d percent of the outstanding common stock of Sub 1 was owned by public investors.

Prior Transactions

Prior to Date 3, DE 3, DE 4, DE 6, DE 7, and DE 8 were corporations. During Date 3, DE 3, DE 4, DE 6, DE 7, and DE 8 were converted to limited liability companies treated as disregarded entities (the "Date 3 Conversions").

As a result of past transactions, a deferred intercompany gain under Treas. Reg. § 1.1502-13 (the "DIG") existed with respect to a portion of Sub 1 stock (the "DIG Stock"). Prior to Date 1, DE 8 owned all of Sub 1. The DIG resulted from DE 8's distribution on Date 1 of e percent of the common stock of Sub 1 to DE 6 in a transaction to which section 311 of the Code applied (the "Date 1 Distribution"). DE 6 further distributed the DIG Stock to DE 4, which then contributed it to DE 7, which was then a newly formed, wholly owned subsidiary.

Subsequent to the Date 1 Distribution, ownership of the common stock of Sub 1 (other than the DIG Stock) was transferred within the Parent Consolidated Group in various transactions. Parent determined that Sub 1 and its subsidiaries were no longer members of the Parent Consolidated Group as of Date 2 as the combined result of various transactions involving Sub 1 shares, including dispositions of Sub 1 shares (the "Deconsolidation Event").

Completed Transaction

Parent engaged in the Completed Transaction for what are represented to be valid business reasons. The relevant steps of the Completed Transaction, which occurred on or before Date 4, are set forth below:

Before Date 4:

- 1) Parent distributed the equity of DE 2, a dormant or non-operational entity, to Parent Owner.
- 2) DE 2 formed a new domestic corporation ("New Parent").
- 3) New Parent formed a new domestic disregarded entity ("DE 11").
- 4) The stock of Sub 2 was distributed from DE 10, through DE 9, DE 8, DE 6, DE 4, and DE 3, to Parent in a series of transactions intended to be disregarded for federal income tax purposes.

- 5) DE 8 caused each of its domestic subsidiaries treated as corporations for federal income tax purposes, except for Sub 3, to be converted into limited liability companies treated as disregarded entities. Each conversion was intended to qualify as a liquidation under section 332 of the Code.
- 6) DE 8 distributed the excess cash held by DE 8 and its subsidiaries to Parent in a series of transactions intended to be disregarded for federal income tax purposes.
- 7) DE 5, through DE 4 and DE 3, and DE 1 distributed their respective shares of Sub 1 common stock to Parent in transactions intended to be disregarded for federal income tax purposes.

On Date 4:

- 8) An unrelated corporation ("Buyer") acquired all the equity of DE 6 from DE 4 through the merger of a disregarded entity wholly owned by Buyer with and into DE 6 with DE 6 surviving as a disregarded entity wholly owned by Buyer. The transaction was intended to be treated as a taxable sale for federal income tax purposes (the "Business A Disposition"). The consideration received by DE 4 in the transaction was distributed, through DE 3, to Parent in transactions intended to be disregarded for federal income tax purposes. A portion of the consideration will be used to satisfy liabilities and to redeem Parent shares held by employees of DE 8, with the remainder distributed to Parent Owner.
- 9) Parent distributed the equity of DE 1 and DE 3 to Parent Owner (the "Interests"). The Interests represent ownership interests in dormant or non-operational entities. Parent Owner then contributed the equity of Parent, DE 1, DE 3, and a newly formed domestic disregarded entity to DE 2.
- 10) Parent then merged with and into DE 11, with DE 11 surviving, in a transaction that, together with Steps 2 and 3, was intended to be a reorganization described in section 368(a)(1)(F) of the Code (the "Parent Reorganization"). As a result of the Parent Reorganization, New Parent succeeded to the DIG.
- 11) DE 11 distributed its shares of Sub 1 common stock, cash, and the equity of Sub 2 to New Parent in transactions intended to be disregarded for federal income tax purposes.
- 12) New Parent distributed the equity of DE 11 to DE 2.
- 13) Sub 1 formed a new domestic disregarded entity ("DE 12").
- 14) New Parent merged with and into DE 12 with DE 12 surviving (the "Downstream Merger") in a transaction intended to be a reorganization described in section 368(a)(1)(A) of the Code.

Representations

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

- 1) Each of the Date 3 Conversions qualified as a liquidation under section 332.
- 2) The Parent Reorganization is a reorganization described in section 368(a)(1)(F) and resulted in a continuation of the Parent Consolidated Group pursuant to Treas. Reg. §1.1502-75(d)(2)(i).
- 3) But for the issue of whether the Downstream Merger satisfies 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).
- 4) The Parent Consolidated Group did not terminate at any time before the effective date of the Downstream Merger.
- 5) The Parent Consolidated Group held the DIG Stock until the effective date of the Downstream Merger.
- 6) Transactions taken with respect to the stock of Sub 1, including any transactions that resulted in a Deconsolidation Event, were undertaken for valid business reasons.
- 7) Other than the Date 1 Distribution, no transaction taken with respect to the stock of Sub 1 resulted in the creation of a deferred intercompany gain under Treas. Reg. § 1.1502-13.
- 8) The effects of the Date 1 Distribution have not previously been, and no event would have resulted in the Date1 Distribution being, reflected, directly or indirectly, on the Parent Consolidated Group's consolidated return.
- 9) The Parent Consolidated Group has not derived, and no taxpayer will derive, any federal income tax benefit from the Date 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) The DIG is redetermined to be excluded from gross income under Treas. Reg. § 1.1502-13(c)(6)(ii)(D).
- 2) The Downstream Merger satisfies the continuity of business enterprise requirement under Treas. Reg. §§ 1.368-1(b) and (d).

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of the Completed Transaction or any other 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-118149-23) of this letter ruling.

Sincerely,

Austin Diamond Jones

Austin Diamond-Jones
Branch Chief, Branch 3
Office of Associate Chief Counsel (Corporate)

cc: