

Internal Revenue Service

Number: **202429002**
Release Date: 7/19/2024

Index Number: 9999.02-00, 368.05-00,
368.06-00

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:B04
PLR-102518-23

Date:
August 08, 2023

Legend

Corp A =

Corp B =

Sub 1 =

Foundation =

State A =

State B =

State C =

Members =

Business A =

Business B =

Eligible Member
Payment =

Dear :

This letter responds to a letter from your authorized representative dated January 26, 2023, submitted on behalf of Corp B (or “**Taxpayer**”), requesting a ruling on certain federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated March 22, 2023, April 26, 2023, July 31, 2023, and August 7, 2023. The material information provided in the initial letter and in later correspondence is summarized below.

This letter and the ruling contained herein are issued pursuant to section 3.01(60) of Rev. Proc. 2023-3, 2023-1 I.R.B. 144, regarding significant issues. The ruling contained in this letter only addresses one discrete legal issue involved in the proposed transaction. This Office expresses no opinion as to the overall tax consequences of the proposed transaction described in this letter or as to any issue not specifically addressed by the ruling below.

The ruling contained in this letter is based upon 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 material submitted in support of this request for a ruling. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Corp A is a publicly traded and widely held company organized under the laws of State A and treated as a corporation for U.S. federal tax purposes. Corp A is engaged in Business A.

Corp A directly owns 100 percent of the issued and outstanding membership interests of Sub 1, which is treated as a disregarded entity for U.S. federal income tax purposes.

Corp B is a mutual insurance company organized under the laws of State B; has Members who hold membership interests and contractual rights under insurance policies; and is, directly and through its subsidiaries, engaged in Business B. A membership interest in Corp B entitles the Member to vote at annual and special meetings of Corp B but does not provide the right to receive dividends. The rights inherent in each membership interest are created by operation of the laws of State B and the articles of incorporation of Corp B solely as the result of the Member's acquisition of the underlying contract of Corp B and cannot be transferred separately from the contract.

Corp B is controlled by its Board of Directors. These Directors are elected by the voting Members at the annual meeting of the voting Members and hold office for a term of one year.

The Proposed Transaction

For what are represented to be valid business purposes, Corp A and Corp B propose to engage in the following steps (collectively, the "**Proposed Transaction**"), of which steps 3 through 6 will occur contemporaneously:

1. Foundation, a section 501(c)(4) organization is formed under State C law and is registered to do business in State B.
2. Corp B makes a payment to Foundation, funded partially from its excess cash surplus and partially via the issuance of a note to Foundation.
3. Corp B undertakes a conversion (the "**Conversion**") from a mutual insurance company to a stock insurance company in accordance with State B law, and, as provided in the plan of reorganization, one hundred percent of its newly issued shares of capital stock are transferred to Sub 1.
4. Sub 1 makes a payment to a third-party paying agent equal to the Eligible Member Payment, which is an amount deemed fair and equitable under the statutes of State B and approved by the State B Commissioner of Insurance.
5. The third-party paying agent pays to each Member its share of the Eligible Member Payment.
6. Corp A contributes cash down-the-chain to Corp B, which uses it to repay and satisfy the obligations of the note issued to Foundation.

Representations

In its submissions, Taxpayer has made the following representations:

1. Other than the issue of the stock of the newly converted Corp B being transferred to Sub 1, the Conversion otherwise should qualify as a tax-free reorganization under sections 368(a)(1)(E) and 368(a)(1)(F).
2. The Proposed Transaction comports with applicable state and federal law.

Ruling

Based solely upon the information submitted and the representations made, we rule as follows on the Proposed Transaction:

Although the stock of the newly-converted Corp B will be issued directly to Sub 1 and holders of the membership interests of Corp B will not at any point actually receive stock of Corp B in connection with the Proposed Transaction, solely for U.S. federal income tax purposes, the Conversion and Eligible Member Payment received by the Corp B policyholders will be treated as if the stock of Corp B is deemed to have been issued directly to the Corp B policyholders in exchange for the pre-existing membership interests of Corp B, followed by a sale of such stock by the Corp B policyholders to Sub 1 in exchange for the Eligible Member Payment received by the Corp B policyholders.

Caveats

No opinion is expressed regarding whether Foundation will qualify as an exempt organization under section 501(c)(4).

No opinion is expressed regarding whether the Conversion constitutes a reorganization under sections 368(a)(1)(E) or 368(a)(1)(F).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any 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 ruling letter is 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 this letter ruling.

Sincerely,

Douglas C. Bates
Chief, Branch 4
Office of Associate Chief Counsel (Corporate)

cc: