

## Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

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PLR-107170-25

Date:

July 22, 2025

### Legend

Parent =

Distributing =

Controlled =

Sub 1 =

Sub 2 =

Sub 3 =

FDRE1 =

FDRE2 =

FSub1 =

FSub2 =

FSub3 =

USDRE 1 =

USDRE 2 =

Country A =

State A =

Business A =

Business B =

Business C =

Seconded Employees =

Agreement =

Distributing Business A Debt =

Distributing Business B Debt =

USDRE 2 Business A Debt =

Operating Liabilities =

Contingent Liabilities =

Treaty =

x =

Dear :

This letter responds to your letter dated March 10, 2025, as supplemented on May 2, 2025 and July 18, 2025 (the “Ruling Request”), requesting rulings on certain federal tax consequences of the proposed transaction described below (the “Proposed Transaction”). The material information submitted is summarized below.

This letter is issued pursuant to Rev. Proc. 2025-1, 2025-1 I.R.B. 1, Rev. Proc. 2024-24, 2024-21 I.R.B. 1214, and Rev. Proc. 2017-52, 2017-41 I.R.B. 283, regarding one or more “Covered Transactions” under Sections 355 and 368 of the Internal Revenue Code (the “Code”), and Rev. Proc. 2023-26, 2023-33 I.R.B. 486. This Office expresses no opinion as to any issue not specifically addressed by the rulings below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalties 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 Office has made no determination regarding whether the Distribution (defined below) satisfies the business purpose requirement of Treas. Reg. § 1.355-2(b).

### **Summary of Facts**

Parent is a publicly traded Country A corporation and is the parent of a worldwide group that includes both domestic and foreign entities (the “Parent Worldwide Group”). The Parent Worldwide Group is engaged in Business A, Business B, and Business C, among other businesses. Parent wholly owns each of FDRE1, a Country A entity disregarded as separate from its owner for US federal tax purposes (a “disregarded entity”), and FSub1.

FDRE1 wholly owns FSub2. FSub2 wholly owns FSub3 and FDRE2, a Country A disregarded entity.

FSub3 wholly owns Distributing, the common parent of an affiliated group of corporations that files a consolidated US federal income tax return (the “Distributing Consolidated Group”).

Distributing wholly owns USDRE 1, a disregarded entity, and Sub 1.

USDRE 1 wholly owns Sub 2. Sub 2 wholly owns USDRE 2, a disregarded entity.

FSub1 owns, indirectly through a chain of disregarded entities, all of the stock of Sub3.

Pursuant to the Agreement, USDRE 2 owes the USDRE 2 Business A Debt to Distributing, and Distributing owes the Distributing Business A Debt and the Distributing Business B Debt to FSub3.

For purposes of satisfying the active trade or business requirement of Section 355(b) with respect to the Distribution (as defined below), (i) Distributing will rely upon Business C conducted by members of its “separate affiliated group” as defined in Section 355(b)(3)(B); and (ii) Controlled (defined below) will rely upon Business A conducted by

USDRE 2. Financial information has been submitted in accordance with Rev. Proc. 2017-52 indicating that each of Business A and Business C has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

### **Proposed Transaction**

For what are represented to be valid business reasons, Distributing proposes to undertake the following Proposed Transaction, some of which have been completed:

1. Sub 2 converted to a limited liability company ("Sub 2 LLC") a disregarded entity.
2. Distributing will form Controlled, which will have a single class of common stock issued and outstanding (the "Controlled Formation").
3. Sub 2 LLC will contribute assets related to Business A, if any, to USDRE 2 in a transaction that is disregarded for US federal income tax purposes.
4. FSub3, Distributing, USDRE 2, and Controlled will engage in the following series of steps:
  - a. FSub3 will lend an amount of cash equal to the outstanding amount of Distributing Business A Debt to Controlled.
  - b. Controlled will lend the cash to USDRE 2.
  - c. USDRE 2 will transfer the cash to Distributing in full repayment of the disregarded USDRE 2 Business A Debt.
  - d. Distributing will transfer the cash to FSub3 in repayment of the Distributing Business A Debt.
5. Sub 2 LLC will distribute 100% of the outstanding equity interests in USDRE 2 to USDRE 1 in a transaction that is disregarded for US federal income tax purpose. USDRE 1 will distribute 100% of the outstanding equity interests in USDRE 2 to Distributing in a transaction that is disregarded for US federal income tax purposes.
6. Distributing will contribute 100% of the outstanding equity interests in USDRE 2 to Controlled as a contribution to capital with no additional Controlled stock issued (together with the Controlled Formation and the series of steps in Step (4), the "Contribution"). As a result of the Contribution, Controlled will be treated as assuming the Operating Liabilities and the Contingent Liabilities from Distributing for US federal income tax purposes.

7. Distributing will distribute 100% of the outstanding stock of Controlled to FSub3 (the “Distribution” and together with the Contribution, the “Spin-Off”).
8. FSub2, FSub3, Distributing, and FDRE2, will engage in the following series of steps:
  - a. FSub2 will lend an amount of cash equal to the outstanding amount of the Distributing Business B Debt to FDRE2.
  - b. FDRE2 will lend the cash received in Step 8(a) to Distributing.
  - c. Distributing will transfer the cash received in Step 8(b) to FSub3 in full repayment of the Distributing Business B Debt.
  - d. FSub3 will transfer the cash received in Step 8(c) to FSub2 in partial repayment of the debt owed by FSub3 to FSub2.
9. FSub2, FSub3, and FDRE2 will engage in the following series of steps:
  - a. FSub2 will lend an amount of cash equal to the fair market value of 100% of the outstanding stock of Distributing to FDRE2 in a transaction that is disregarded for US federal income tax purposes.
  - b. FDRE2 will purchase 100% of the outstanding stock of Distributing from FSub3 in exchange for the cash received in Step 9(a).
  - c. FSub3 will distribute all of the cash received in Step 9(b) to FSub2.
10. FSub2, FDRE1, and Parent will engage in the following series of steps:
  - a. Parent will purchase 100% of the outstanding stock of FSub3 from FSub2 in exchange for cash.
  - b. FSub2 will distribute all or a portion of the cash received in Step 10(a) to FDRE1.
  - c. FDRE1 will distribute all of the cash received in Step 10(b) to Parent.

### **Representations**

Except as set forth below and except for the representations superseded by Rev. Proc. 2024-24, Distributing has made all of the representations in Section 3 of the Appendix to Rev. Proc. 2017-52 with respect to the Spin-Off.

Distributing has made the following alternative representations:

Representations: 3(a), 8(b), 11(a) (subject to the modification described below), 22(a), 31(a), and 41(a).

Distributing has not made the following representations, but provided the required explanations:

Representations: 7, 24, 25, 30, 35, 39, and 40.

Distributing has made the following modified representations:

Representation 11(a): Following the Distribution, Distributing or the DSAG and Controlled or the CSAG each will continue, independently and with its separate employees (and, in the case of Controlled, with the Seconded Employees or possibly with employees legally employed by Sub3), the active conduct of the business on which it relies to meet the active trade or business requirement of § 355(b).

Representation 32: No intercorporate debt will exist between Distributing and Controlled at the time of, or subsequent to, the Distribution of Controlled stock, other than intercompany debt arising from payments for the Seconded Employees or in the ordinary course of operations.

Distributing also makes the following additional representations in lieu of Representation 14 and 15 in Rev. Proc. 2017-52:

Immediately after the Distribution, the fair market value of the business assets of each of Distributing's separate affiliated group (within the meaning of Section 355(b)(3)(B)) and Controlled will be greater than 80 percent of the fair market value of its total assets. For this purpose, the term "business assets" of a corporation means its gross assets used in one or more businesses and all members of Distributing's separate affiliated group, within the meaning of Section 355(b)(3)(B), are treated as one corporation. Such assets include cash and cash equivalents held as a reasonable amount of working capital for one or more businesses. Such assets also include assets required (by binding commitment or legal requirement) to be held to provide for exigencies related to a business or for regulatory purposes with respect to a business.

Except as described in the Ruling Request, there is no plan or intention by the shareholders or security holders of Distributing to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either Distributing or Controlled after the transaction.

There is no plan or intention by Distributing or Controlled, directly or through any related person (within the meaning of section 267(b) or section 707(b)(1)), to purchase any of its outstanding stock after the transaction.

There is no plan or intention to liquidate either Distributing or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business or as described in the Ruling Request.

Distributing has made an additional representation in lieu of Representation 29 in Rev. Proc. 2017-52:

There will have been no agreement, understanding, arrangement, or substantial negotiations at any point during the two-year period ending on the date of the distribution regarding an acquisition of either Distributing or Controlled (including a predecessor or successor within the meaning of Treas. Reg. § 1.355-8) or a similar acquisition).

Except as set forth below, Distributing has made all of the representations in section 3.03 and 3.05 of Rev. Proc. 2024-24 with respect to the Spin-Off.

Distributing has made the following alternative representation:

Representation: 1A.

Distributing has not made the following representations, but provided the required explanations:

Representations: 2, 3, 4, 5, 6, 15, 16, 17, 18, 19, 20, 21, 23, 25, 26, 27, 28, 29, and 30.

Distributing has made the following modified representations and provided the required explanations for doing so:

Representation 31: No payment by Controlled to satisfy a Distributing Liability (including a Distributing Contingent Liability) that Controlled assumes will be made, directly or indirectly, to Distributing or to a member of the DSAG or made in any manner that results in Distributing or a member of the DSAG having legal or practical dominion or control over any part of the payment.



Distributing also makes the following additional representations:

Additional representations:

1. At the time of Sub 2's conversion, the aggregate fair market value of the assets of Sub 2 will exceed the sum of the liabilities of Sub 2 (whether indebtedness or other forms of obligations, including contingent or related party obligations), plus the other liabilities, if any, to which the assets of Sub 2 will be subject.
2. Step 4(a) through 4(d) are necessitated due to the Worldwide Group's internal loan and deposit system to record intercompany loans. The internal system does not allow for the direct assumption of intercompany payables and receivables, but instead must be effectuated through flows of cash through the relevant entities.
3. The assumption by Controlled of the Distributing Business A Debt will constitute a "significant modification" under Treas. Reg. § 1.1001-3(e)(4) because Controlled will substitute for Distributing as the obligor of such debt as a result of the assumption.
4. Pursuant to the Treaty, if the Distribution were a non-Section 355 distribution from Distributing to FSub3, it would be subject to a x% rate of US withholding tax on dividends (within the meaning of Section 316).

### **Rulings**

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

1. For federal income tax purposes, Steps 4(a) through 4(d) are disregarded and will be treated as the assumption by Controlled of the Distributing Business A Debt under Section 357(a). Cf. Rev. Rul. 78-397, 1978-2 C.B. 150 and 83-142, 1983-2 C.B. 68.
2. The Contribution, together with the Distribution (*i.e.*, the Spin-Off), will be a "reorganization" under Section 368(a)(1)(D) to which Section 355 applies. Distributing and Controlled will each be "a party to a reorganization" within the meaning of Section 368(b).
3. Distributing will recognize no gain or loss on the Contribution. Section 361(a) and 357(a).
4. Controlled will recognize no gain or loss on the Contribution. Section 1032(a).

5. Controlled's basis in each asset received from Distributing in the Contribution will equal the basis of such asset in the hands of Distributing immediately before the Contribution. Section 362(b).
6. Controlled's holding period in each asset received from Distributing in the Contribution will include the holding period of such asset held by Distributing. Section 1223(2).
7. Distributing will recognize no gain or loss on Distribution. Section 361(c) and Treas. Reg. § 1.367(e)-1(c).
8. FSub3 will recognize no gain or loss (and no amount will be includible in its income) on the receipt of Controlled stock in the Distribution. Section 355(a)(1).
9. The aggregate basis of the Controlled stock and the Distributing stock in the hands of FSub3 immediately after the Distribution will equal the aggregate basis of the Distributing stock held by FSub3 immediately before the Distribution, allocated between the stock of Distributing and Controlled in proportion to the fair market value of each immediately following the Distribution in accordance with Treas. Reg. § 1.358-2(a)(2)(iv). Section 358(b)(2) and (c).
10. FSub3's holding period in the Controlled stock received in the Distribution will include the holding period of the Distributing stock held by Parent with respect to which the Distribution is made, provided that such Distributing stock is held as a capital asset on the date of the Distribution. Section 1223(1).
11. Earnings and profits will be allocated between Distributing and Controlled in accordance with Section 312(h), Treas. Reg. § 1.312-10(a), and Treas. Reg. § 1.1502-33(e)(3).
12. Following the Distribution, Controlled will not be a successor of Distributing for purposes of Section 1504(a)(3). Therefore, Controlled and any future direct and indirect subsidiaries that are "includible corporations" under Section 1504(b) and satisfy the ownership requirements of Section 1504(a)(2) will be members of an affiliated group of corporations entitled to file a consolidated US federal income tax return with Controlled as common parent.

### **Caveats**

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the Proposed Transaction under any provision of the Code or regulations or the tax treatment of any condition existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings.

**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.

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 ruling letter.

Pursuant to the power of attorney on file in this matter, copies of this letter are being sent to your authorized representatives.

Sincerely,

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Mark J. Weiss  
Chief, Branch 2  
Office of Associate Chief Counsel (Corporate)

cc: