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Department of the Treasury

Washington, DC 20224

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Person To Contact:

Telephone Number:

Refer Reply To:

CC:ITA:B02

PLR-124321-23

Date:

July 18, 2025

In re:

LEGEND

Parent =

Old Parent =

Subsidiary =

Agency =

Bridge Bank =

Receivership Sale =

Acquirer =

State X =

State Y =

State Y Department =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =
Date 6 =
Date 7 =
Date 8 =
Year 1 =
\$a =
Income Source 1 =

Income Source 2 =

Income Source 3 =

Dear :

This ruling is in response to a letter dated December 13, 2023, submitted on behalf of Old Parent, requesting a ruling that Old Parent is entitled to an ordinary loss for worthless securities under section 165(g)(3) of the Internal Revenue Code.

FACTS

The facts and information described herein and forming the basis of this ruling are as represented by Parent under penalty of perjury.

Old Parent is a State X corporation which was organized as a bank holding company to hold Subsidiary, a State Y-chartered commercial bank, along with various other subsidiaries. Old Parent filed a consolidated federal income tax return with its various corporate U.S. subsidiaries, including Subsidiary. Subsidiary is also the section 381 successor to numerous other corporations that operated as banks. Since at least Year 1 until Date 5, Old Parent directly owned all of the outstanding stock of Subsidiary.

Subsidiary and its subsidiaries provided a full range of services including traditional term loans, growth capital term loans, equipment loans, asset-based loans, revolving lines of credit, warehouse facilities, recurring revenue facilities, mezzanine lending, acquisition finance facilities, corporate working capital facilities, standby and commercial letters of credit, project finance loans, and credit card programs.

On Date 1, State Y Department closed Subsidiary and placed Subsidiary in receivership, appointing Agency as receiver. On Date 2, Agency, as receiver, transferred all deposits and substantially all the assets of Subsidiary to a newly created, Agency-operated bridge bank, Bridge Bank, effective Date 1. Prior to Date 1, Subsidiary was Old Parent's principal operating subsidiary.

On Date 3, Old Parent commenced a voluntary case under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court. Old Parent's bankruptcy filing was precipitated by the placement of Subsidiary into receivership with Agency, which deprived Old Parent of a key source of liquidity and business infrastructure and also triggered default clauses in Old Parent's debt documents. No other member of the Old Parent consolidated group, or other entity owned by the Old Parent consolidated group, filed for bankruptcy protection.

On Date 4, Agency dissolved Bridge Bank. On the same day, Agency was appointed as the receiver for Bridge Bank and caused the Receivership Sale. Agency continues to act as receiver for Subsidiary and Bridge Bank and administers the remaining assets and liabilities of such entities.

On Date 5, Old Parent abandoned the stock of Subsidiary (and all entities and arrangements that are treated as a single entity with successors to Subsidiary for U.S. federal income tax purposes). On Date 6, Old Parent emerged from bankruptcy. On Date 7, Parent, a newly formed corporation, caused its newly formed, wholly owned subsidiary to merge with and into Old Parent, with Old Parent surviving as a wholly owned subsidiary of Parent in a transaction characterized as a reverse acquisition under § 1.1502-75(d)(3) of the Income Tax Regulations.

Old Parent had an adjusted tax basis in its Subsidiary stock of at least approximately \$a, as of Date 8. Subsidiary continued to be a member of the Old Parent consolidated group until Date 5, and pursuant to Treas. Reg. § 1.1502-80(c), Old Parent had not claimed a worthless stock deduction with respect to the Subsidiary stock. Old Parent will be claiming a worthless stock deduction with respect to its stock in Subsidiary from the abandonment of Old Parent's equity interests in Subsidiary and any claims thereto, a transaction which satisfies the requirements of Treas. Reg. § 1.1502-80(c)(1)(ii).

Parent makes the following additional representations:

- 1) More than 90% of Subsidiary's aggregate gross receipts (including intercompany distributions as defined in Treas. Reg. § 1.1502-13(f)(2)) for all taxable years that Subsidiary has been in existence through Date 5 has been from Income

Source 1, Income Source 2, and Income Source 3. These income sources do not include any royalties, rents (except rents derived from rental of properties to employees of the corporation in the ordinary course of its operating business), dividends, interest (except interest received on deferred purchase price of operating assets sold), annuities, or gains from sales or exchanges of stocks and securities.

- 2) The gross receipts computation takes into account the gross receipts of all section 381 predecessors (including the predecessor banks) and excludes any prior intercompany distributions from such predecessor entities to prevent double counting.
- 3) Gross receipts from sales or exchanges of stocks and securities are taken into account only to the extent of gains therefrom.
- 4) Old Parent did not make an election pursuant to Treas. Reg. § 1.597-4(g) to disaffiliate Subsidiary.
- 5) Subsidiary continued to be an affiliate of Old Parent within the meaning of section 1504(a)(2) until Old Parent abandoned the Subsidiary stock.
- 6) Old Parent's Subsidiary stock was worthless within the meaning of section 165(g)(1) at the time it was abandoned.
- 7) Prior to the abandonment of the Subsidiary stock on Date 5, not all of Subsidiary's assets (other than its corporate charter and those assets, if any, necessary to satisfy state law minimum capital requirements to maintain corporate existence) had been treated as disposed of, abandoned, or destroyed for federal income tax purposes, nor did Subsidiary's assets consist solely of stock of a lower-tier member; an indebtedness of Subsidiary had not been discharged, where any part of the amount discharged had not either been included in gross income or treated as tax-exempt income under Treas. Reg. § 1.1502-32(b)(3)(ii)(C); and no member of the Old Parent consolidated group had taken into account a deduction or loss for the uncollectibility of an indebtedness of Subsidiary.

LAW AND ANALYSIS

Section 165(a) allows as a deduction any loss sustained during the year and not compensated for by insurance or otherwise. Section 165(g)(1) provides the general rule that if any security which is a capital asset becomes worthless during the tax year, the resulting loss is treated as a loss from the sale or exchange of a capital asset. Section 165(g)(2) defines a security to include a share of stock in a corporation. As Subsidiary

is a corporation, the Subsidiary stock is a “security” within the meaning of section 165(g)(1).

Section 1.165-5(i) of the regulations provides that a security that becomes wholly worthless includes a security that is abandoned and otherwise satisfies the requirements for a deductible loss under section 165. If the abandoned security is a capital asset and is not described in section 165(g)(3), the resulting loss is treated as a loss from the sale or exchange of a capital asset. Parent represents that the Subsidiary stock was worthless within the meaning of section 165(g)(1) at the time the stock was abandoned on Date 5.

Section 165(g)(3) of the Code provides an exception to the general capital loss rule and allows a taxpayer that is a domestic corporation to claim an ordinary loss for worthless securities of an “affiliated” corporation. See also Treas. Reg. § 1.165-5(d). Under section 165(g)(3), a corporation is treated as “affiliated with the taxpayer” only if—

- (A) the taxpayer owns directly stock in the corporation meeting the requirements of section 1504(a)(2) (i.e., at least 80 percent of the voting power and value of the corporation’s stock) (ownership test), and
- (B) more than 90 percent of the aggregate of the corporation’s gross receipts for all taxable years has been from sources other than royalties, rents (except rents derived from rental of properties to employees of the corporation in the ordinary course of its operating business), dividends, interest (except interest received on deferred purchase price of operating assets sold), annuities, and gains from sales or exchanges of stocks and securities (gross receipts test).

In computing gross receipts for purposes of section 165(g)(3), gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom. See also Treas. Reg. § 1.165-5(d)(2)(iii), which provides that the gross receipts test applies for all the taxable years during which the subsidiary has been in existence.

Since Year 1 until the Subsidiary stock was abandoned on Date 5, Old Parent directly owned all of the outstanding stock of Subsidiary. Under the facts at issue here, the ownership test of section 165(g)(3)(A) is satisfied. Because the ownership test is satisfied and Parent represents that all other requirements for a deductible worthless stock loss under section 165 were met on Date 5, when Old Parent abandoned the Subsidiary stock, the sole remaining issue is whether the gross receipts test of section 165(g)(3)(B) is satisfied and, therefore, the loss is ordinary rather than capital.

Parent represents that more than 90% of Subsidiary’s aggregate gross receipts (including intercompany distributions as defined in Treas. Reg. § 1.1502-13(f)(2)) for all taxable years that Subsidiary has been in existence through Date 5 has been from Income Source 1, Income Source 2, and Income Source 3 after taking into account the gross receipts of all Section 381 predecessors (including the predecessor banks) and

excluding any prior intercompany distributions from such predecessor entities to prevent double counting. In computing gross receipts for purposes of the preceding sentence, gross receipts from sales or exchanges of stocks and securities are taken into account only to the extent of gains therefrom. Because the gross receipts from Income Source 1, Income Source 2, and Income Source 3 are from sources other than those specified in section 165(g)(3)(B), the gross receipts test is met.

CONCLUSION

Based solely on the facts submitted and the representations made, and provided that all the requirements for Old Parent to claim a worthless securities deduction under sections 165(a) and 165(g) (taking into account Treas. Reg. § 1.1502-80(c)) are otherwise satisfied, we conclude that Old Parent may claim an ordinary loss under sections 165(a) and 165(g)(3) for its basis in Subsidiary's stock as a result of the abandonment of the Subsidiary stock on Date 5.

The ruling contained in this letter is based on information and representations submitted by Parent and Old Parent 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 ruling, it is subject to verification on examination. If any of the information or representations provided are subsequently determined to be inaccurate and/or incomplete, this ruling and its conclusions are void.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences arising from the facts described above under any other provision of the Code or regulations. In particular, no opinion is expressed as to the worthlessness of Subsidiary's stock, the timing of worthlessness, or whether Old Parent is the appropriate entity to claim any deduction.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, a taxpayer filing its return electronically may satisfy this requirement by attaching a statement to its return that provides the date and control number of the letter ruling.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the provisions of the power of attorney currently on file with this office, copies of this letter are being sent to your authorized representative. We are also sending a copy of this letter to the appropriate operating division director.

Sincerely,

Ronald J. Goldstein
Acting Branch Chief, Branch 2
Office of Associate Chief Counsel
(Income Tax and Accounting)

cc: