

Internal Revenue Service

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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
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Date:
February 17, 2026

Legend

X =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

A =

B =

State =

Date =

n =

Dear _____ :

This letter responds to a letter dated February 28, 2025 and additional correspondence, submitted on behalf of X by X's authorized representative, requesting a ruling under § 721 of the Internal Revenue Code (Code) that certain taxpayers will not recognize gain or loss on proposed contributions of assets to X.

FACTS

According to the information submitted and representations made X was organized as a limited liability company on Date under the laws of State. Effective Date, X elected to be taxed as a partnership for federal tax purposes. Trust 1, Trust 2, Trust 3, Trust 4, and individuals A and B (the "Partners") intend to enter into a transaction in which the Partners will contribute cash and certain specifically identified investment assets to X (proposed transaction).

X represents that immediately after the receipt of cash and investment assets in the proposed transaction, X would, were it incorporated, qualify as an investment company for purposes of § 351(e)(1). X also represents that the investment assets that would be contributed to X in the proposed transaction are diversified portfolios of stocks and securities within the meaning of § 368(a)(2)(F)(ii). X represents that the Partners would contribute cash to X that constitutes no more than n% of the total value of the assets contributed to X in the proposed transaction.

LAW AND ANALYSIS

Section 721(a) of the Code provides that no gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

Section 721(b) provides that section 721(a) will not apply to gain realized on a transfer of property to a partnership which would be treated as an investment company (within the meaning of section 351 of the Code, if the partnership were incorporated).

Section 351(a) of the Code provides that no gain or loss will be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock in such corporation and immediately after the exchange such person or persons are in control of the corporation.

Section 351(e)(1) provides that the nonrecognition rule of section 351(a) does not apply to "a transfer of property to an investment company." The section further provides that for purposes of the preceding sentence, the determination of whether a company is an investment company shall be made by (A) taking into account all stock and securities held by the company, and (B) by treating as stocks and securities: money, stocks, other equity interests in a corporation and other listed items.

Section 1.351-1(c)(1) provides that a transfer of property will be considered to be “a transfer to an investment company” if (i) the transfer results in diversification of the transferor's interests and (ii) the transfer is made to a regulated investment company (RIC), a real estate investment trust (REIT), or a corporation more than 80% of the value of whose assets are held for investment and are readily marketable stocks or securities.

Section 1.351-1(c)(2) provides that the determination of whether a company is an investment company shall ordinarily be made immediately after the transfer, but if the circumstances change thereafter pursuant to a plan in existence at the time of the transfer, this determination shall be made by reference to the later circumstances.

Section 1.351-1(c)(5) provides that a transfer ordinarily results in diversification if two or more persons transfer nonidentical assets to a corporation in the exchange. If any transaction involves one or more transfers of nonidentical assets which, taken in the aggregate, constitute an insignificant portion of the total value of the assets transferred, such transfer shall be disregarded in determining whether diversification has occurred.

Section 1.351-1(c)(6)(i) provides that a transfer of stocks and securities will not be treated as resulting in diversification if each transferor transfers a diversified portfolio of stocks and securities. A portfolio of stocks and securities is diversified if it satisfies the 25 percent and 50 percent tests of § 368(a)(2)(F)(ii), applying the relevant provisions of § 368(a)(2)(F). For this purpose, government securities are included in determining total assets, unless the government securities are acquired to meet § 368(a)(2)(F)(ii).

CONCLUSION

Based solely on the facts submitted and representations made, we conclude that if X were incorporated, it would be an investment company under § 351(e)(1) at the time of the proposed transaction. We further conclude that the proposed transaction to contribute the specific assets identified in the ruling request will not result in the diversification of the transferors' interests within the meaning of § 1.351-1(c)(1)(i). Therefore, no gain will be recognized by the Partners under § 721 on their contribution of investment assets and cash to X.

The ruling contained in this letter is based upon information and representations submitted by X's authorized representative 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 requested ruling, it is subject to verification on examination.

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

In accordance with a power of attorney on file with this office, we are sending a copy of this letter to X's authorized representative.

Sincerely,

Robert D. Alinsky

Robert D. Alinsky
Branch Chief, Branch 3
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure:

Copy of this letter for § 6110 purposes

cc: