**Internal Revenue Service**

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:INTL:Br.3-PLR-117996-98
Date:
December 11th 1998

TY: 1997

Legend

Corp X =

Corp Y =

N business =

Date A =

This is in response to a letter dated September 14, 1998, and supplemented by a letter dated October 26, 1998, that was submitted on your behalf by your authorized representative requesting a ruling that Corp X be permitted to use the tax book method of asset valuation for purposes of apportioning interest expense for all tax years beginning on or after January 1, 1997.

The ruling contained in this letter is 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 a ruling, it is subject to verification on examination.

Corp X is a domestic corporation that is the publicly traded parent of an affiliated group of corporations that are engaged in N business. Corp X files a consolidated federal income tax return on a calendar year basis. Corp X began using the fair market value method of asset valuation for allocating and apportioning interest expense on its 1987 consolidated federal income tax return and has continued to use the fair market value method of asset valuation for each taxable year thereafter. For tax years beginning in 1988, an affiliated group of corporations could choose either the fair market value or the tax book value method of asset valuation without regard to which method it had used in 1987 and without securing the consent of the Commissioner. In 1988, Corp X elected, pursuant to section 1.861-9T(g)(1)(ii) of the Income Tax Regulations, to apportion its interest expense based upon the fair market value method of asset valuation, as set forth in section 1.861-9T(h). Corp X now wishes to utilize the tax book value method of asset valuation, as set forth in section 1.861-9T(g).

On Date A, 1997, Corp X acquired Corp Y in a tax-free transaction. Prior to this date, Corp Y was a domestic corporation that was the publicly traded parent of an affiliated group of corporations that filed a consolidated federal income tax return on a calendar year basis. As a result of this transaction, Corp X's 1997 consolidated federal income tax return will include Corp Y for part of the year. Corp Y will file a separate consolidated federal income tax return for pre-acquisition portion of the 1997 calendar year. Federal income tax returns for both corporations were stated to be due on September 15, 1998.

Section 864(e)(2) of the Internal Revenue Code provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income.

Section 1.861-8T(c)(2) of the regulations also provides that taxpayers with interest expenses are required to apportion their interest expenses on the basis of assets. Such apportionment must be made on the basis of either the tax book value of those assets or the fair market value of the assets. Once a taxpayer uses the fair market value method of apportioning interest expense, the taxpayer and all related persons must continue to use such method until the Commissioner expressly authorizes a change in the method of asset valuation.

Section 1.861-9T sets forth the rules specific to the apportionment of interest expense. Section 1.861-9T(g)(1)(iii) provides that if the taxpayer chooses the fair market value method of asset valuation, the taxpayer must establish the fair market values of its assets to the satisfaction of the Commissioner. Otherwise, the Commissioner may determine the appropriate values or require the taxpayer to use the tax book value method of apportionment. Section 1.861-9T(h) sets forth the rules for determining the fair market value of the taxpayer's assets under the fair market value method.

Corp X requests permission to change to the tax book value method of asset valuation, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for all tax years beginning on or after January 1, 1997.

The reasons for Corp X's desire to change its method of asset valuation for purposes of apportioning interest expense are stated to be: 1. the use of the tax book value method will decrease complexity and avoid potential disagreement with the Service with respect to the fair market value of assets; 2. the taxpayer will be able to avoid the cost of having fair market value studies performed; and 3. greater certainty of tax results will be available to both the taxpayer and the Service.

Based solely upon the information submitted, the representations made, and the reasons given for this request, it is held that Corp X may change to the tax book value method of asset valuation for the purpose of interest expense apportionment for tax years beginning on or after January 1, 1997.

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.

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.

Sincerely,

Barbara A. Felker
Branch Chief
Office of Associate Chief Counsel
(International)

cc: