Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:
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Date:
July 6, 2000

Individual A	=
Individual B	=
Parent	=
Sub 1	=
Sub 2	=
Sub 3	=
Sub 4	=
Sub 5	=
Sub 6	=
Sub 7	=
Sub 8	=
Sub 9	=
Partnership	=
LLC C	=
LLC D	=
LLC E	=
Asset F	=
Asset G	=
Asset H	=
Asset I	=
Asset J	=
Business A	=
Date A	=
Date B	=
Date C	=
a	=

This letter responds to your January 14, 2000 request for rulings on certain federal income tax consequences of the completed transaction described below (the "Transaction").

The rulings in this letter are based on 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 materials submitted in support of the ruling request. Verification of the facts, information, and other data in this ruling letter may be required as part of the audit process.

Summary of Facts

Before the Transaction, Individual A and Individual B together owned all the stock of Sub 1 through Sub 9, each of which was engaged in various aspects of Business A. All of the Subs were S corporations under § 1361(a) of the Internal Revenue Code (the "Code"), and each, with the exception of Sub 2, had been an S corporation since its creation or for a time that exceeded the recognition period of § 1374(d)(7).

Sub 1 owned Asset I, Asset J, Asset F, a capital construction fund account established under § 607 of the Merchant Marine Act (a "CCF Account"), and an a percent interest in Partnership. Sub 2 owned Asset I, Asset J, a CCF Account, and the remaining interest in Partnership. Partnership owned Asset H, Asset I, and Asset J. Sub 3 owned Asset G, Asset I, and a CCF Account. Sub 4 through 7 each owned Asset I.

The Transaction

Individual A and Individual B have caused Parent and Sub 1 through Sub 9 to undertake and complete the following steps:

(i) On or before Date A, Sub 1 formed wholly owned LLC C, Sub 2 formed wholly owned LLC E, and Sub 3 formed wholly owned LLC D.

(ii) On Date B, Individual A and Individual B contributed cash to newly formed Parent in exchange for Parent's voting and non-voting common stock. On the same date, Parent elected under § 1362(a) to be taxed as an S corporation.

(iii) On Date C, Individual A and Individual B transferred their interests in Sub 1 through Sub 9 (the "Contributed Corps") to Parent in exchange for additional voting and non-voting shares of Parent stock (the "Contributions"). Immediately following the

Contributions, Parent made a Qualified Subchapter S Subsidiary election (a "QSUB Election") for each Contributed Corp under § 1361(b)(3) of the Code and § 1.1361-3(a)(1) of the Income Tax Regulations (collectively, the "QSUB Elections"), one consequence of which was the dissolution of Partnership.

(iv) Sub 1 transferred its rights in Asset F to LLC C, and Sub 3 transferred its rights in Asset G to LLC D. Sub 1 and Sub 2 transferred their interests in Asset H (received from Partnership in step (iii)) to LLC E, and Sub 1 transferred to Sub 2 its interest in other Partnership assets and liabilities.

(v) Parent has received approval from the Secretary of the Commerce Department to consolidate the CCF Accounts currently owned by Sub 1, Sub 2, and Sub 3 into a new CCF Account owned by Parent.

Representations

The Contributions

The taxpayer has made the following representation concerning the Contributions:

(a) To the best knowledge and belief of Individual A, Individual B, and their taxpayer representative, each exchange of a Contributed Corp's stock for Parent voting and non-voting common stock in the Contributions will qualify under § 351(a).

The QSUB Elections

The taxpayer has made the following representations concerning each QSUB Election:

(b) Parent, on the effective date of the QSUB Election, was the owner of at least 80 percent of the single outstanding class of the Contributed Corp's stock.

(c) No shares of the Contributed Corp were redeemed during the three years preceding the Contributed Corp's QSUB Election.

(d) The Contributed Corp did not acquire assets in any nontaxable transaction at any time, except for acquisitions occurring more than three years before the effective date of its QSUB Election.

(e) No assets of the Contributed Corp were disposed of before the QSUB Election by either the Contributed Corp or Parent, except for dispositions in the

ordinary course of business and dispositions occurring more than three years before the Contributed Corp's QSUB Election.

(f) The Contributed Corp's QSUB Election will not be followed by the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") of any of the businesses or assets of the Contributed Corp, if persons who held, directly or indirectly, more than 20 percent in value of the stock of the Contributed Corp also hold, directly or indirectly, more than 20 percent in value of the stock in Recipient. For purposes of this representation, ownership will be determined by application of the constructive ownership rule of § 318(a), as modified by § 304(c)(3).

(g) Before the QSUB Election, no assets of the Contributed Corp were distributed in kind, transferred, or sold to Parent, except for transactions occurring in the normal course of business.

(h) The Contributed Corp will report all earned income represented by assets deemed distributed to Parent, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(i) The fair market value of the assets of the Contributed Corp exceeded its liabilities on the effective date of the QSUB Election.

(j) No intercorporate debt existed between Parent and the Contributed Corp before the QSUB Election, and none was cancelled, forgiven, or discounted, except for transactions occurring before the date Parent initially acquired the Contributed Corp stock.

(k) All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the QSUB Election for the Contributed Corp have been fully disclosed.

Rulings

The QSUB Elections

Based solely on the information submitted and the representations set forth above, we rule as follows on each QSUB Election:

(1) Provided the QSUB Election for a Contributed Corp is effective before January 1, 2001, the Contributed Corp is deemed to have liquidated into Parent at the close of the day before the QSUB Election is effective ((the "Liquidation") (§ 1.1361-4(a)(2), (a)(5)(i), and (b)(1)).

(2) The Liquidation is treated for federal income tax purposes as a complete

liquidation under § 332 (§ 1.332-1).

(3) No gain or loss is recognized by Parent as a result of the Liquidation (§ 332(a)).

(4) No gain or loss is recognized by the Contributed Corp as a result of the Liquidation (§ 337(a)).

(5) The basis of each asset received by Parent in the Liquidation equals the basis of that asset in the hands of the Contributed Corp immediately before the Liquidation (§ 334(b)).

(6) The holding period of each asset received by Parent in the Liquidation includes the period during which that asset was held by the Contributed Corp (§ 1223(2)).

(7) Parent succeeds to and takes into account the attributes of the Contributed Corp described in § 381(c), subject to the provisions and limitations specified in §§ 381, 382, 383, and 384, if applicable, and the regulations thereunder (§ 381(a) and § 1.381 (a)-1).

(8) Parent succeeds to and takes into account the Subchapter C earnings and profits (or deficit in earnings and profits), if any, of the Contributed Corp as of the effective date of the QSUB Election (§ 381(c)(2) and § 1.381(c)(2)-1).

Other Rulings

(9) Parent is subject to the built-in gains tax of § 1374 for the assets it is deemed to receive from Sub 2 pursuant to the QSUB Election for Sub 2 (see § 1.1374-8(b) (relating to the separate determination of tax for the assets of Sub 2)). For federal income tax purposes, including the built-in gains tax of § 1374, Sub 2 will not be treated as a separate corporation, and all assets, liabilities, and items of income, deduction, and credit of Sub 2 will be treated as assets, liabilities, and items of Parent (§ 1361(b)(3)(A)). The recognition period of Parent for any such asset will be reduced by the portion of the recognition period of Sub 2 for the asset that had expired before the transaction (§ 1374(d)(8)).

(10) There is no period during which any Contributed Corp will be treated as a Subchapter C corporation for any period of time as a result of the Contribution followed by the QSUB Election.

(11) The consolidation of the CCF Accounts owned by Sub 1, Sub 2, and Sub 3 into a CCF Account owned by Parent will not be treated as a nonqualified withdrawal under § 7518(g).

(12) No gain or loss will result from the transfer by Sub 1 and Sub 2 of their interests in Asset H to LLC E, the transfer by Sub 1 of Asset F to LLC C, the transfer by Sub 3 of Asset G to LLC D, and the transfer by Sub 1 of its share of Partnership assets and liabilities to Sub 2, because each Contributed Corp and each single-member LLC is disregarded for federal tax purposes.

Caveats

We express no opinion on the tax effects of the Transaction under other provisions of the Code and regulations, or the tax effects of any condition existing at the time of, or effects resulting from, the Transaction that are not specifically covered by the above rulings. In particular, no opinion is expressed regarding (i) qualification of the Contributions under § 351, (ii) the validity of any Subchapter S election or QSUB Election described above, and (iii) the federal income tax consequences of the distribution to Sub 1 and Sub 2 of Partnership assets and liabilities as a result of the dissolution of Partnership.

Procedural Matters

This letter is directed only to the taxpayers who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of each affected taxpayer for the year in which the Transaction was completed.

Under a power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely,
Assistant Chief Counsel, (Corporate)
By: Wayne T. Murray
Senior Technician/Reviewer, Branch 4