

**Internal Revenue Service**

Department of the Treasury

Number: **200046018**  
Release Date: 11/17/2000  
Index Numbers: 338.01-02  
9100.07-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:4 - PLR-107156-00

Date:

August 21, 2000

Purchaser =

Target =

Sellers =

Date A =

Date B =

Date C =

Company Official &  
Tax Professional =

Authorized  
Representatives =

Dear:

This letter responds to your Authorized Representatives' letter dated March 23, 2000, requesting, on behalf of the taxpayers identified above, an extension of time under §§ 301.9100-1 through 301.9100-3 of the Procedure and Administration Regulations to file an election. Purchaser and Sellers are requesting an extension to file a "§ 338(h)(10) election" under §§ 338(g) and 338(h)(10) of the Internal Revenue Code and § 1.338(h)(10)-1(d) of the Income Tax Regulations (the "Election"), with respect to Purchaser's acquisition of the stock of Target on Date A. (All citations in this

letter to regulations under § 338 are to regulations in effect on Date A.) Additional information was received in letters dated June 9 and August 11, 2000. The material information is summarized below.

Purchaser is the common parent of a consolidated group that has a calendar taxable year and uses the accrual method of accounting. Target is an S corporation within the meaning of § 1361, all the stock of which was owned by Sellers (individuals). Target did not have any subsidiaries.

On Date A, Purchaser acquired all of the stock of Target from Sellers in exchange for cash, a note, and stock of Purchaser pursuant to a stock purchase agreement dated the same day. The stock purchase agreement provided that Seller and Purchaser would make a § 338(h)(10) election. Following the acquisition, "new" Target was included in Purchaser's consolidated group as a Subchapter C corporation. It is represented that; (1) Purchaser was not related to Sellers within the meaning of § 338(h)(3); (2) Purchaser's deemed acquisition of the stock of Target qualified as a "qualified stock purchase," as defined in § 338(d)(3); (3) the acquisition did not qualify as a § 351 transfer because Purchaser is an "old and cold" corporation and Sellers did not receive a sufficient amount of stock of Purchaser to constitute "control"; and (4) none of the Sellers reported or will report gain on the transaction under the installment method of § 453(a).

Target and Purchaser intended to file the Election. The Election was due on Date B, but for various reasons a valid Election was not filed. On Date C, Purchaser's Company Official & Tax Professional discovered that the Election had not been filed. Subsequently, this request was submitted, under § 301.9100-1, for an extension of time to file the Election. The period of limitations on assessments under § 6501(a) has not expired for Parent's, Target's, or any of the Sellers' taxable year(s) in which the acquisition occurred, the taxable years in which the Election should have been filed, or any taxable years that would have been affected by the Election had it been timely filed. None of the taxpayers has filed a return that is not consistent with the Election, and the Service has not examined the applicable returns and, thus, has not discovered the omitted election.

Section 338(a) permits certain stock purchases to be treated as asset acquisitions if: (1) the purchasing corporation makes or is treated as having made a "§ 338 election" under § 338(g); and (2) the acquisition is a "qualified stock purchase." Section 1.338-1(c)(10) provides that a "§ 338 election" is an election to apply § 338(a) to target. Section 338(g) specifies the requirements for making a "§ 338 election." Section 1.338(h)(10)-1(d)(3) provides that if a § 338(h)(10) election is made for Target, a "§ 338 election" is deemed made for Target. Section 338(d)(3) defines a "qualified stock purchase" as any transaction or series of transactions in which stock (meeting the requirements of § 1504(a)(2)) of 1 corporation is acquired by another corporation by purchase during the 12-month acquisition period.

Section 338(h)(3)(A) provides that the term "purchase" means any acquisition of stock, but only if: (i) the basis of the stock in the hands of the purchasing corporation is not determined (I) in whole or in part by reference to the adjusted basis of such stock in the hands of the person from whom acquired, or (II) under § 1014(a) (relating to property acquired from a decedent); (ii) the stock is not acquired in an exchange to which §§ 351, 354, 355, or 356 applies and is not acquired in any other transaction described in regulations in which the transferor does not recognize the entire amount of the gain or loss realized on the transaction; and (iii) the stock is not acquired from a person the ownership of whose stock would, under § 318(a) (other than paragraph (4) thereof), be attributed to the person acquiring such stock.

Section 338(h)(10) permits the purchasing and selling corporations to elect jointly to treat the target corporation as deemed to sell all of its assets and distribute the proceeds in complete liquidation. The sale of stock included in the qualified stock purchase generally is ignored. A § 338(h)(10) election may be made for target only if it is a member of a selling consolidated group, a member of a selling affiliated group filing separate returns, or an S corporation. Section 1.338(h)(10)-1(a). Gain or loss on the deemed sale is included in the consolidated return of the selling group (unless the target corporation is a member of a selling affiliated group filing separate returns or an S corporation). Section 1.338(h)(10)-1(d) provides that a § 338(h)(10) election may be made for the target corporation if the purchasing corporation makes a "qualified stock purchase" of the target corporation stock. Section 1.338(h)(10)-1(d)(3) provides that if a § 338(h)(10) election is made for the target corporation, it is irrevocable.

Section 1.338(h)(10)-1(d)(2) provides that a § 338(h)(10) election is jointly made by a purchaser and the selling consolidated group (or the selling affiliate or the S corporation shareholders) on Form 8023 in accordance with the instructions to the form. The regulations further provide that the election must be made not later than the 15th day of the ninth month beginning after the month in which the acquisition date occurs. The instructions to Form 8023 provide that a § 338(h)(10) election must be made jointly by the purchasing corporation and the common parent of the selling consolidated group (or selling affiliate or S corporation shareholders). The instructions provide that the form must be signed by a person authorized to act on behalf of each corporation, and if made for an S corporation it must be signed by each S corporation shareholder who sells target stock in the qualified stock purchase. The instructions further provide that the signatures, dates and titles (if applicable) of those persons must be provided in a "signature attachment," and they provide specific details as to the preparation of the "signature attachment" and its attachment to Form 8023.

Section 1.1502-77(a) provides that the common parent, for all purposes (other than for several purposes not relevant here), shall be the sole agent for each subsidiary in the group, duly authorized to act in its own name in all matters relating to the tax liability for the consolidated return year. See also Form 8023 and the instructions thereto.

Under § 301.9100-1(c), the Commissioner has discretion to grant a reasonable extension of time to make a regulatory election, or a statutory election (but no more than six months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H, and I.

Section 301.9100-1(b) defines the term "regulatory election" as including an election whose due date is prescribed by a regulation, revenue ruling, revenue procedure, notice, or announcement. Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make a regulatory election. Section 301.9100-1(a). Section 301.9100-2 provides automatic extensions of time for making certain elections. Requests for relief under § 301.9100-3 will be granted when the taxpayer provides evidence to establish that the taxpayer acted reasonably and in good faith, and that granting relief will not prejudice the interests of the government. Section 301.9100-3(a).

In this case, the time for filing the Election is fixed by the regulations (i.e., § 1.338(h)(10)-1(d)). Therefore, the Commissioner has discretionary authority under § 301.9100-1 to grant an extension of time for Purchaser and Sellers to file the Election, provided Purchaser and Sellers show they acted reasonably and in good faith, the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied, and granting relief will not prejudice the interests of the government.

Information, affidavits, and representations submitted by Purchaser, Target, Company Official & Tax Professional, Sellers, and Authorized Representatives explain the circumstances that resulted in the failure to timely file a valid Election. The information establishes that the taxpayers filed their returns as if a valid Election had been made, that their returns have not yet been examined, and that the Service has not discovered that the Election has not been filed. The information also establishes that a competent tax professional was responsible for the Election and was aware of all relevant facts, that Parent and Sellers relied on the tax professional to make the Election, and that the interests of the government will not be prejudiced if relief is granted. See §§ 301.9100-3(b)(1)(i) and (v).

Based on the facts and information submitted, including the representations made, we conclude that Purchaser and Sellers have shown they acted reasonably and in good faith, the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied, and granting relief will not prejudice the interests of the government. Accordingly, an extension of time is granted under § 301.9100-1, until 30 days from the date of issuance of this letter, for Purchaser and Sellers to file the Election with respect to the acquisition of the stock of Target, as described above.

The above extension of time is conditioned on: (1) Purchaser having acquired the Target stock from the Sellers in a "qualified stock purchase," within the meaning of § 338(d)(3), on Date A; (2) Purchaser and all of the Sellers signing the Election; (3)

Purchaser and all of the Sellers treating the acquisition/sale of the Target stock as a § 338(h)(10) transaction on their returns; and (4) the taxpayers' (Sellers', Purchaser's, and Target's) tax liability (if any) being not lower, in the aggregate, for all years to which the Election applies, than it would have been if the Election had been timely made (taking into account the time value of money). No opinion is expressed as to the taxpayers' tax liability for the years involved. A determination thereof will be made by the District Director's office upon audit of the Federal income tax returns involved. Further, no opinion is expressed as to the Federal income tax effect, if any, if it is determined that the taxpayers' liability is lower. Section 301.9100-3(c).

Purchaser and Sellers must file the Election in accordance with § 1.338(h)(10)-1(d). That is, an Election on Form 8023 must be executed on or after the date of this letter, which grants an extension, and filed in accordance with the instructions to the form. A copy of this letter should be attached to the election form. Purchaser and Sellers must file or amend, as applicable, their returns to report the transaction as a § 338(h)(10) transaction for the year in which the transaction was consummated, and to attach to the return a copy of this letter and a copy of the Election.

We express no opinion as to whether (1) the acquisition/sale of the Target stock qualifies as a "qualified stock purchase" under § 338(d)(3); (2) whether the acquisition/sale of Target stock qualifies for § 338(h)(10) treatment; or (3) if § 338(h)(10) is applicable, as to the amount and character of gain or loss, if any, recognized on Target's deemed asset sales and deemed liquidation. See § 1.338(h)(10)-1(e).

In addition, we express no opinion as to the tax consequences of filing the Election late under the provisions of any other section of the Code and regulations, or as to the tax treatment of any conditions existing at the time of, or resulting from, filing the Election late that are not specifically set forth in the above ruling. For purposes of granting relief under § 301.9100-1, we relied on certain statements and representations made by the taxpayers. However, the District Director(s) should verify all essential facts. In addition, notwithstanding that an extension is granted under § 301.9100-1 to file the Election, penalties and interest that would otherwise be applicable, if any, continue to apply.

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

A copy of this letter is being sent to your authorized representative, pursuant to the power of attorney on file in this office.

Sincerely yours,  
Associate Chief Counsel (Corporate)

By: \_\_\_\_\_  
Ken Cohen  
Acting Chief, Branch 3