Internal Revenue Service

Department of the Treasury

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DO: TY:

Legend

Corp X =

Corp Y =

Corp Z =

Corp M =

Year A =

Date B =

Date C =

This is in response to a letter dated August 16, 2000, requesting a ruling that Corp X and its subsidiaries be permitted to change to the tax book value method of asset valuation for purposes apportioning interest expense for tax years beginning on or after January 1, 2000. Additional information was received in a letter dated October 5, 2000.

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, a domestic corporation, is the parent of an affiliated group of corporations (the Corp X group) that files a consolidated federal income tax return on a calendar year basis. The outstanding stock of Corp X is held by Corp Y and Corp Z, both of which are foreign corporations. On its Year A federal income tax return Corp X elected the fair market value method of asset valuation, as described in section 1.861-9T(h) of the Temporary Income Tax Regulations, for purposes of apportioning interest expense.

Corp M, a domestic corporation, is the parent of an affiliated group of corporations (the Corp M group) that files a consolidated federal income tax return. The Corp M group uses the tax book value method of asset valuation, as described in section 1.861-9T(g) of the temporary regulations, for purposes of apportioning interest expense.

On Date B, 2000, Corp Y, Corp Z, and certain Corp X subsidiaries entered into an agreement and plan of merger with Corp M. On Date C, 2000, Corp X acquired all of the capital stock of Corp M and, as a result, Corp M and its subsidiaries became members of the Corp X group.

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 1.861-9T(g)(1)(ii) of the temporary regulations provides that, for purposes of apportioning interest expense, a taxpayer may elect to determine the value of its assets on the basis of either the tax book value or the fair market value of its assets. Section 1.861-8T(c)(2) provides that once a taxpayer uses the fair market value method, the taxpayer and all related persons must continue to use such method unless expressly authorized by the Commissioner to change methods.

Section 1.861-9T(g)(1)(iii) provides that if a taxpayer elects the fair market value method of asset valuation, the taxpayer must establish the fair market value 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 a taxpayer's assets under the fair market value method.

Corp X requests, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii) of the temporary regulations, to be permitted to use the tax book value method of asset valuation for tax years beginning on or after January 1, 2000. This request would conform Corp X and its subsidiaries to the method of asset valuation used by Corp M and its subsidiaries prior to the acquisition.

Corp X provides the following additional bases for its request: (1) to simplify its asset valuation methodology; (2) to avoid potential valuation disagreements with the Service; and (3) to arrive at a more certain and predictable result and avoid the cost of external global valuation studies, particularly with respect to the newly acquired Corp M group assets.

Based solely upon the information submitted, the representations made, and the reasons given for this request, Corp X and its subsidiaries may change from the fair market value method of asset valuation for purposes of apportioning interest expense to the tax book method, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii) of the temporary regulations, for its tax year beginning on January 1, 2000.

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.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative. A copy of this letter must be attached to any income tax return to which it is relevant.

Sincerely,
Anne O'Connell Devereaux
Assistant to the Branch Chief
Branch 3
Office of the Associate Chief Counsel
(International)

cc: