Internal Revenue Service

Department of the Treasury

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Date:
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Taxpayer =
XX =
QI =
State X =
RQ =

RP =

Dear

This responds to Taxpayer's letter, dated July 19, 2000, and a supplemental submission dated August 24, 2000, requesting a private letter ruling as to the application of § 1031 of the Internal Revenue Code ("Code") to the proposed transaction. Specifically, Taxpayer requests a ruling that acquisition of an exchange accommodator (QI), which, as an LLC, is a disregarded business entity for federal tax purposes, will be treated as the acquisition of qualifying like-kind replacement property.

QI is a single member LLC organized under the laws of State X. It has not elected to be classified as an association pursuant to §301.7701-3(c) of the Procedure and Administration Regulations. Its sole member is XX. To facilitate an exchange with Taxpayer of RQ for RP, QI acquired RP. RP consists of real property selected by Taxpayer, on which XX constructed improvements to Taxpayer's specifications. The conveyance of RP to Taxpayer would be subject to a real estate transfer fee under State X law. However, the transfer of the ownership interest in an LLC, such as QI, to Taxpayer would not be subject to the real estate transfer fee. To avoid incurring a liability for the local real estate transfer fees incident to the transfer of RP by QI, Taxpayer proposes to simply acquire QI from XX.

Section 301.7701-2(c)(2) provides that, in general, a business entity that has a single owner and is not a corporation (as defined in § 301.7701-2(b)) is disregarded as an entity separate from its owner for federal tax purposes unless the entity elects to treat itself as an association for federal tax purposes. Because QI, as an LLC, will be disregarded as an entity separate from its owner, the receipt of the ownership of QI by

Taxpayer is treated as the receipt by Taxpayer of RP owned by QI.

Accordingly, Taxpayer's receipt of the sole ownership interest in QI, which owns RP, will be treated as the receipt of RP directly by Taxpayer for purposes of qualifying the receipt of such RP for nonrecognition of gain under § 1031.

The above ruling applies only to the extent property held by QI at the time it is transferred to Taxpayer is property of a like kind to RQ, to be held for use in Taxpayer's trade or business or for investment. Non-like-kind property held by QI, if any, will be taxable to Taxpayer as boot. In addition, any other (non-like-kind) property transferred to Taxpayer, incident to this exchange, will be taxable boot to Taxpayer, regardless of whether Taxpayer first receives the ownership interest in QI. No determination is made by this letter as to whether the described transaction otherwise qualifies for deferral of gain realized under § 1031.

Except as specifically ruled above, no opinion is expressed as to the federal tax treatment of the transaction under any other provisions of the Code and the Income Tax Regulations that may be applicable or under any other general principles of federal income taxation. No opinion is expressed as to the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above ruling. This ruling is directed only to the taxpayer(s) who requested it. Section 6110(k)(3) of the Code provides that it may not be cited as precedent.

Sincerely yours,
Assistant Chief Counsel
(Income Tax & Accounting)
By Robert M. Casey
Senior Technician Reviewer, Branch 5

cc: