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Person to Contact:

Telephone Number:

Refer Reply To:

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Date:

April 20, 2001

Distributing =

Controlled =

Business A =

Business B =

Segment 1 (Business B) =

Segment 2 (Business B) =

DSub A =

DSub A-1 =

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DSub B =

DSub B-1 =

DSub B-2 =

DSub B-3 =

DSub C =

DSub D =

FSub 1 =

FSub 2 =

Country H =

FSub 3 =

FSub 4 =

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DSub E =

Region J =

Country K =

FSub 5 =

FSub 6 =

FSub 7 =

FSub 8 =

Country L =

FSub 9 =

FP 2 =

FP 3 =

DSub M =

FSub 10 =

Country O =

FSub 18 =

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FSub 11 =

Country P =

FSub 12 =

FSub 13 =

state X =

FSub 14 =

DSub 15 =

FSub 16 =

date Q =

FSub 17 =

R =

S =

T =

U =

V =

Consulting Firm 1 =

Consulting Firm 2 =

W =

Y =

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Z =

AA =

BB =

date CC =

Business DD =

date EE =

FSub 19 =

date FF =

date GG =

HH =

II =

date JJ =

KK =

date LL =

MM =

date NN =

date OO =

PP =

QQ =

date RR =

SS =

TT =

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Business TT =

UU =

VV =

date WW =

date XX =

:

This responds to a letter dated December 15, 2000, submitted on your behalf by your authorized representative, in which rulings were requested regarding the federal income tax consequences of a proposed transaction. We received additional information in letters dated March 1, March 9, April 6, April 11, April 16, and April 17, 2001. The information submitted for consideration is summarized below.

Distributing is an accrual method state X corporation and the common parent of an affiliated group of corporations filing a consolidated federal income tax return on a calendar year basis. Distributing has one class of voting common stock outstanding, which is widely held and publicly traded on a national exchange. Distributing has established several grantor trusts for the benefit of its employees (collectively, the "Distributing Grantor Trusts"). While not viewed as entities for federal income tax purposes, shares of Distributing have been set aside in these trusts. The Distributing Grantor Trusts will not hold stock of Controlled subsequent to the Controlled Distribution (described below). These Distributing Grantor Trusts will waive their right to receive Controlled stock in the Controlled Distribution. Distributing has also established a § 401(k) plan for the benefit of its employees. No later than the date of the Distribution (described below), Distributing will transfer the accounts and appropriate assets, including Distributing stock, of active employees of Controlled to a new § 401(k) plan established by Controlled. Stock in Controlled that is received by the § 401(k) plans in the Distribution will be held in both plans. Each employee-beneficiary of the § 401(k) plans will have voting rights and dispositive power with respect to the Distributing or Controlled stock in their account. Distributing has issued compensatory options to executives, key employees, and directors under its stock option plans (the

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“Compensatory Options”). Approximately W individuals hold Compensatory Options for approximately Y shares of Distributing stock. These options are either vested or non-vested. None of Distributing’s debt instruments and option instruments constitute a stock interest.

Distributing owns all of the outstanding stock of DSub A, DSub B, DSub C, DSub D, DSub E, and DSub M. DSub B owns all of the outstanding stock of DSub B-1, DSub B-2, and DSub B-3. DSub D owns all of the outstanding stock of FSub 1. DSub A owns all of the outstanding stock of FSub 2. FSub 2 owns all of the outstanding stock of FSub 3, and FSub 3 owns all of the outstanding stock of FSub 4. DSub E owns all of the outstanding stock of FSub 5 and FSub 9, and FSub 5 owns all of the outstanding stock of FSub 6, FSub 7, and FSub 8. FSub 9 owns a Z percent interest in FP 2 and a AA percent interest in FP 3, each of which are partnerships. DSub M owns all of the outstanding stock of FSub 10 and FSub 11. FSub 10 owns all of the outstanding stock of FSub 12, FSub 13, and FSub 18. All corporations described in this letter use an accrual method of accounting.

Distributing is primarily engaged, through its domestic and foreign subsidiaries, in two lines of business commonly referred to as Business A and Business B. The principal segments of Business B are Segment 1 and Segment 2. Distributing operates Business A in the United States primarily through its first-tier, wholly owned subsidiary DSub A. Business A is also conducted in the United States through a wholly owned operating subsidiary of DSub B, DSub B-3. DSub B also acts as a holding company for Distributing’s Business B operations in the United States. Business B is operated in the United States primarily through two wholly owned subsidiaries of DSub B, DSub B-1 and DSub B-2. Business B is also conducted in the United States through a wholly owned subsidiary of Distributing, DSub C. Financial information has been submitted indicating that each of Business A and Business B have had gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

Distributing will form Controlled as part of the overall transaction. Controlled will have one class of voting common stock. All of the stock of Controlled will be held by Distributing immediately prior to the Distribution (described below).

Distributing’s management has become concerned about the future of Distributing with the mounting conflicts between Business A and Business B and their divergent strategic plans. Distributing engaged Consulting Firm 1 and Consulting Firm 2 to work in tandem to address the issues facing Distributing’s continued operation of both Business A and Business B. Distributing has been advised that its problems are attributable to (i) lack of synergies between Business A and Business B, (ii) need to focus on Business A’s e-business initiatives, and (iii) conflicts related to disproportionate capital funding. Both Consulting Firm 1 and Consulting Firm 2 have advised Distributing that the problems it is facing are greatly exacerbated by the

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presence of both Business A and Business B in the same affiliated group, and that the business exigencies for the proposed transaction derive from the immediate need to separate Business A from Business B. Accordingly, the following transaction has been proposed:

- (1) Distributing will form Controlled. Controlled will be the holding company for Business B and will be incorporated in state X.
- (2) DSub B-3 will convert into a single member LLC (“DSub B-3 LLC”) that will be a disregarded entity for federal income tax purposes (the “DSub B-3 Liquidation”). Certain assets of DSub B-3 LLC that are unrelated to its business will be distributed to DSub B.
- (3) DSub A will convert into a single member LLC (“DSub A LLC”) that will be a disregarded entity for federal income tax purposes (the “DSub A Liquidation”).
- (4) International Restructurings
  - (a) Country H
    - (i) FSub 3 will distribute the stock of FSub 4 to FSub 2 (the “FSub 3 Distribution”).
    - (ii) FSub 2 will distribute the stock of FSub 4 to DSub A LLC (the “FSub 2 Distribution”).
    - (iii) DSub A LLC will distribute the stock of FSub 4 to Distributing.
  - (b) Country K
    - (i) DSub E will form a single member LLC (“DSub E LLC”) that will be a disregarded entity for federal income tax purposes. DSub E LLC will be formed for the purpose of holding nominal interests in Country K and Country L entities to satisfy local law requirements.
    - (ii) Under the laws of Country K, FSub 5 will undergo a demerger transaction that will divide it into two separate corporations, accomplished as follows:
      - (a) DSub E and DSub E LLC will form FSub 14, a Country K corporation.
      - (b) FSub 5 will transfer its stock of FSub 6 to FSub 14 in what has been represented to be a taxable transaction.



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- (iii) DSub E will transfer the stock of FSub 14 to DSub 15, a wholly owned subsidiary of DSub B-2 that will be formed to hold the Region J operations of Business B, in what has been represented to be a taxable transaction. DSub B-2 will capitalize DSub 15 with a receivable from DSub E. DSub E will transfer FSub 14 to DSub 15 in partial repayment of its debt to DSub 15.
- (c) Country L
  - (i) FSub 9 will elect to be a disregarded entity, whose owner for federal income tax purposes will be DSub E (the “FSub 9 Liquidation”).
  - (ii) Under the laws of Country L, FSub 9 will undergo a demerger transaction that will divide it into two separate entities that will be disregarded entities for federal income tax purposes, accomplished as follows:
    - (a) DSub E will form FSub 16. FSub 16 will elect to be a disregarded entity, whose owner for federal income tax purposes will be DSub E.
    - (b) FSub 9 will transfer its FP 3 and FP 2 partnership interests to FSub 16.
  - (iii) DSub E will transfer FSub 16 to DSub 15 in what has been represented to be a taxable transaction in partial repayment of debt to DSub 15.
- (d) Country O
  - (i) DSub M will convert into a single member LLC (“DSub M LLC”) that will be a disregarded entity for federal income tax purposes (the “DSub M Liquidation”).
  - (ii) After date Q, under the laws of Country O, FSub 10 will undergo a demerger transaction that will divide it into two separate corporations (the “Country O Demerger”), accomplished as follows:
    - (a) In the Country O Demerger, DSub M LLC will form FSub 17, which will be a corporation for federal income tax purposes.
    - (b) FSub 10 will transfer the Country O Segment 1 (Business B) assets held directly by FSub 10, the stock of FSub 12, and the stock of FSub 13 to FSub 17.

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(iii) DSub M LLC will transfer the shares of FSub 17 to Distributing.

(e) Country P

DSub M LLC will transfer the stock of FSub 11 to Distributing.

- (5) DSub B-2 will distribute approximately \$R million to DSub B. DSub B-1 will distribute approximately \$S million to DSub B. DSub B will distribute its interest in DSub B-3 LLC and approximately \$T million, which will include the funds received by DSub B-1 and DSub B-2, to Distributing. Distributing will use the cash it receives to repay its creditors.
- (6) Controlled will borrow approximately \$U million to \$V million from a third party lender (the "Borrowing Proceeds").
- (7) Distributing will contribute to Controlled two buildings used by Business B, the stock of DSub B, the stock of DSub C, the stock of FSub 4, the stock of FSub 11, the stock of DSub D, and the stock of FSub 17 (collectively, the "Contributed Assets") in exchange for all or a portion of the Borrowing Proceeds, and the deemed issuance of Controlled stock (the "Contribution"). Distributing will use the Borrowing Proceeds received from Controlled to repay its creditors.
- (8) After date Q, Distributing will distribute all of the stock of Controlled pro rata to its shareholders, except Distributing will not distribute fractional share interests of Controlled common stock. Instead, fractional shares, if any, will be aggregated and sold on the open market at then-prevailing prices by the transfer agent, a party independent from Distributing and Controlled. The transfer agent will then distribute to each shareholder of Distributing who would otherwise be entitled to receive a fractional share interest in Controlled such shareholder's portion of the cash proceeds (net of transaction costs) (the "Controlled Distribution").

The following representations have been made in connection with the DSub B-3 Liquidation (step (2), above):

1. DSub B will cause DSub B-3 to convert into a single member LLC whose sole owner for federal income tax purposes will be DSub B (the "DSub B-3 conversion").
2. On the date of the DSub B-3 conversion, DSub B will be the owner of at least 80 percent of the single outstanding class of stock of DSub B-3.
3. No shares of DSub B-3 were redeemed during the three years preceding the DSub B-3 conversion.

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4. For federal income tax purposes, DSub B-3 will not retain any assets following the deemed liquidation of DSub B-3.
5. DSub B-3 will not have acquired assets in any nontaxable transaction at any time except for acquisitions occurring more than three years prior to the date of the DSub B-3 conversion.
6. Except for the distribution by DSub B of DSub B-3 LLC to Distributing, no assets of DSub B-3 have been or will be disposed of by either DSub B-3 or DSub B except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to the DSub B-3 conversion.
7. The deemed liquidation of DSub B-3 will not be preceded by, nor will it be followed by, the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") that is the alter ego of DSub B-3 of any of the businesses or assets of DSub B-3, if persons holding directly or indirectly, more than 20 percent in value of the stock of DSub B-3 also hold, directly or indirectly, more than 20 percent in value of the stock of Recipient. For purposes of this representation, ownership is determined by application of the constructive ownership rules of § 318(a), as modified by § 304(c)(3).
8. Prior to the DSub B-3 conversion, no assets of DSub B-3 will have been distributed in kind, transferred, or sold to DSub B, except for (i) transactions occurring in the normal course of business, and (ii) transactions occurring more than three years prior to the DSub B-3 conversion.
9. DSub B-3 will report all earned income represented by assets that were deemed distributed to its shareholders, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.
10. The fair market value of the assets of DSub B-3 will exceed its liabilities at the date of the DSub B-3 conversion.
11. There is no intercorporate debt existing between DSub B-3 and DSub B and none has been cancelled, forgiven, or discounted, except for transactions that occurred more than three years prior to the date of the DSub B-3 conversion.
12. DSub B is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.
13. All of the transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the DSub B-3 Liquidation have been fully disclosed.

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The following representations have been made in connection with the DSub A Liquidation (step (3), above).

14. Distributing will cause DSub A to convert into a single member LLC whose sole owner for federal income tax purposes will be Distributing (the "DSub A conversion").
15. On the date of the DSub A conversion, Distributing will be the owner of at least 80 percent of the single outstanding class of stock of DSub A.
16. No shares of DSub A were redeemed during the three years preceding the DSub A conversion.
17. For federal income tax purposes, DSub A will not retain any assets following the deemed liquidation of DSub A.
18. DSub A will not have acquired assets in any nontaxable transaction at any time except for acquisitions occurring more than three years prior to the date of the DSub A conversion and a contribution to capital of \$ BB received from Distributing on date CC.
19. Except for sales of various aspects of its Business DD to unrelated parties and the transfer of FSub 4 to Controlled, no assets of DSub A have been or will be disposed of by either DSub A or Distributing except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to the DSub A conversion.
20. The deemed liquidation of DSub A will not be preceded by, nor will it be followed by, the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") that is the alter ego of DSub A of any of the businesses or assets of DSub A, if persons holding directly or indirectly, more than 20 percent in value of the stock of DSub A also hold, directly or indirectly, more than 20 percent in value of the stock of Recipient. For purposes of this representation, ownership is determined by application of the constructive ownership rules of § 318(a), as modified by § 304(c)(3).
21. DSub A has distributed the following assets to Distributing: the stock of DSub A-1 on date EE, and the stock of FSub 19 on date FF. These distributions are unrelated to the liquidation of DSub A. Other than the distributions described above, prior to the adoption of the plan of liquidation, no assets of DSub A will have been distributed in kind, transferred, or sold to Distributing, except for (i) transactions occurring in the normal course of business, and (ii) transactions occurring more than three years prior to the adoption of the plan of liquidation.

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22. DSub A will report all earned income represented by assets that were distributed to its shareholders, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.
23. The fair market value of the assets of DSub A will exceed its liabilities at the date of the DSub A conversion.
24. As of date GG, Distributing owed DSub A approximately \$HH million. DSub A's adjusted basis in the indebtedness from Distributing is equal to the adjusted issue price, face amount, and fair market value of such debt. Other than as described above, there is no intercorporate debt existing between DSub A and Distributing and none has been cancelled, forgiven, or discounted, except for transactions that occurred more than three years prior to the date of the DSub A conversion.
25. Distributing is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.
26. All of the transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the DSub A Liquidation have been fully disclosed.

The following representations have been made in connection with the FSub 9 Liquidation (step (4)(c)(i), above):

27. FSub 9 is an eligible entity in accordance with § 301.7701-3(a).
28. DSub E will file Form 8832 to elect to treat FSub 9 as a disregarded entity under § 301.7701-3(c)(the "FSub 9 election"). Pursuant to § 301.7701-3(g)(3)(i), such election will be effective on the day after the FSub 9 Liquidation.
29. On the effective date of the FSub 9 election, DSub E will be the owner of at least 80 percent of the single outstanding class of stock of FSub 9.
30. No shares of FSub 9 were redeemed during the three years preceding the effective date of the FSub 9 election.
31. For federal income tax purposes, FSub 9 will not retain any assets following the deemed liquidation of FSub 9.
32. FSub 9 will not have acquired assets in any nontaxable transaction at any time except for acquisitions occurring more than three years prior to the effective date of the FSub 9 election, except for contributions to capital of \$II on date JJ, \$KK

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on date LL, and \$MM on date NN. Each such contribution was made by DSub E in exchange for shares of FSub 9 in order to fund operations or acquisitions.

33. FSub 9 owns an interest in a partnership that sold shares of a corporation on date OO for approximately \$PP million. The proceeds from the sale were distributed by the partnership to its partners, including FSub 9. FSub 9 distributed its portion of these proceeds (approximately \$QQ million) to DSub E. Except for the sale described above and the transfer of FSub 16 by DSub E to a subsidiary of DSub B-2 in repayment of debt, no assets of FSub 9 have been or will be disposed of by either FSub 9 or DSub E except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to the effective date of the FSub 9 election.
34. The deemed liquidation of FSub 9 will not be preceded by, nor will it be followed by, the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") that is the alter ego of FSub 9 of any of the businesses or assets of FSub 9, if persons holding directly or indirectly, more than 20 percent in value of the stock of FSub 9 also hold, directly or indirectly, more than 20 percent in value of the stock of Recipient. For purposes of this representation, ownership is determined by application of the constructive ownership rules of § 318(a), as modified by § 304(c)(3).
35. Prior to the effective date of the FSub 9 election, no assets of FSub 9 will have been distributed in kind, transferred, or sold to DSub E, except for (i) transactions occurring in the normal course of business, and (ii) transactions occurring more than three years prior to the effective date of the FSub 9 election.
36. FSub 9 will report all earned income represented by assets that were deemed distributed to its shareholders, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.
37. The fair market value of the assets of FSub 9 will exceed its liabilities at the effective date of the FSub 9 election.
38. Other than the approximately \$VV owed to FSub 9 by DSub E that arose in the ordinary course of business, there is no intercorporate debt existing between FSub 9 and DSub E and none has been cancelled, forgiven, or discounted, since FSub 9's formation on date WW. DSub E's adjusted basis in the indebtedness from FSub 9 is equal to the adjusted issue price, face amount, and fair market value of such debt.
39. DSub E is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.

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40. All of the transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the FSub 9 Liquidation have been fully disclosed.
41. FSub 16 will be an eligible entity, within the meaning of § 301.7701-3(a), immediately before and after the FSub 9 Liquidation.
42. FSub 9 will be a CFC, within the meaning of § 957(a), immediately before the FSub 9 Liquidation.
43. With respect to FSub 9, DSub E will be a “United States shareholder”, within the meaning of § 1.367(b)-3(b)(2), immediately before the FSub 9 Liquidation.
44. FSub 9 will not be a passive foreign investment corporation (“PFIC”), within the meaning of § 1297(a), immediately before the FSub 9 Liquidation.

The following representations have been made in connection with the DSub M Liquidation (step (4)(d)(i), above):

45. Distributing will cause DSub M to convert into a single member LLC whose sole owner for federal income tax purposes will be Distributing (the “DSub M conversion”).
46. On the date of the DSub M conversion, Distributing will be the owner of at least 80 percent of the single outstanding class of stock of DSub M.
47. No shares of DSub M were redeemed during the three years preceding the DSub M conversion.
48. For federal income tax purposes, DSub M will not retain any assets following the deemed liquidation of DSub M.
49. On date RR, Distributing will contribute approximately \$SS million to DSub M. DSub M will contribute these funds to FSub 10 in order for FSub 10 to satisfy certain Country O tax capitalization requirements. Except for Distributing’s contribution of funds described above, DSub M will not have acquired assets in any nontaxable transaction at any time except for acquisitions occurring more than three years prior to the date of the DSub M conversion.
50. On date XX, FSub 10 underwent a demerger in Country O involving a business it intended to sell, Business TT. This demerger transaction was unrelated to the Country O Demerger described in step (4)(d)(ii), above. In this demerger, DSub M formed a new Country O corporation, TT Country O. FSub 10 transferred Business TT to TT Country O. On the same date, DSub M sold the stock of TT

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Country O to an unrelated party. The purpose of this demerger was to reduce Country O taxes on the sale of Business TT. Except as described above, and except for the transfer of FSub 17 to Controlled, no assets of DSub M have been or will be disposed of by either DSub M or Distributing except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to the DSub M conversion.

51. The deemed liquidation of DSub M will not be preceded by, nor will it be followed by, the reincorporation in, or transfer or sale to, a recipient corporation ("Recipient") that is the alter ego of DSub M of any of the businesses or assets of DSub M, if persons holding directly or indirectly, more than 20 percent in value of the stock of DSub M also hold, directly or indirectly, more than 20 percent in value of the stock of Recipient. For purposes of this representation, ownership is determined by application of the constructive ownership rules of § 318(a), as modified by § 304(c)(3).
52. Prior to the DSub M conversion, no assets of DSub M will have been distributed in kind, transferred, or sold to Distributing, except for (i) transactions occurring in the normal course of business, and (ii) transactions occurring more than three years prior to the DSub M conversion.
53. DSub M will report all earned income represented by assets that were deemed distributed to its shareholders, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.
54. The fair market value of the assets of DSub M will exceed its liabilities at the date of the DSub M conversion.
55. Except for intercompany debt of approximately \$UU million owed by DSub M to Distributing to fund DSub M's investment in FSub 10, there is no other intercorporate debt existing between DSub M and Distributing and none has been cancelled, forgiven, or discounted, except for transactions that occurred more than three years prior to the DSub M conversion. Distributing's adjusted basis in the indebtedness from DSub M is equal to the adjusted issue price, face amount, and fair market value of such debt.
56. Distributing is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.
57. All of the transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to, the DSub M Liquidation have been fully disclosed.



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The following representations have been made in connection with the FSub 3 Distribution (step (4)(a)(i), above):

58. The indebtedness (if any) owed by FSub 4 to FSub 3 after the FSub 3 Distribution will not constitute stock or securities.
59. No part of the consideration to be distributed by FSub 3 in the FSub 3 Distribution will be received by a shareholder as a creditor, employee or in any capacity other than that of a shareholder of FSub 3.
60. The five years of financial information submitted on behalf of FSub 3's Business A is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
61. The five years of financial information submitted on behalf of FSub 4's Segment 1 (Business B) is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
62. Following the FSub 3 Distribution, FSub 3 and FSub 4 will each continue the active conduct of its business, independently and with its separate employees.
63. The FSub 3 Distribution will be carried out for the following corporate business purpose: facilitate the separation of Business B from Business A to eliminate management, systemic, and other problems within Distributing's affiliated group. The FSub 3 Distribution is motivated, in whole or substantial part, by this corporate business purpose.
64. Except for the Contribution, there is no plan or intention by the shareholder or security holders of FSub 3 to sell, exchange, transfer by gift or otherwise dispose of any of their stock in, or securities of, either FSub 3 or FSub 4 after the FSub 3 Distribution.
65. There is no plan or intention by either FSub 3 or FSub 4, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the FSub 3 Distribution, other than through stock purchases meeting the requirements of § 4.05(1)(b) of Rev. Proc. 96-30.
66. There is no plan or intention to liquidate either FSub 3 or FSub 4, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the FSub 3 Distribution, except in the ordinary course of business.

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67. Other than certain payables and receivables arising between FSub 3 and FSub 4 in the ordinary course of business, no intercorporate debt will exist between FSub 3 and FSub 4 at the time of, or subsequent to, the FSub 3 Distribution.
68. Payments made in connection with all continuing transactions between FSub 3 and FSub 4 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
69. The FSub 3 Distribution is not part of a plan or series of related transactions, within the meaning of § 355(e), pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either FSub 3 or FSub 4, or stock possessing 50 percent or more of the total value of all classes of stock of either FSub 3 or FSub 4.
70. Each of FSub 3 and FSub 4 will be a controlled foreign corporation ("CFC"), within the meaning of § 957(a), immediately before and after the distribution by FSub 3 of the stock of FSub 4 to FSub 2.
71. With respect to each of FSub 3 and FSub 4, Distributing will be a "§ 1248 shareholder," within the meaning of § 1.367(b)-2(b), immediately before and after the FSub 3 Distribution.
72. Neither FSub 3 nor FSub 4 is, or will be, a PFIC, within the meaning of §1297(a), immediately before or after the FSub 3 Distribution.

The following representations have been made in connection with the FSub 2 Distribution (step (4)(a)(ii), above):

73. The indebtedness (if any) owed by FSub 4 to FSub 2 after the FSub 2 Distribution will not constitute stock or securities.
74. No part of the consideration to be distributed by FSub 2 in the FSub 2 Distribution will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of FSub 2.
75. The five years of financial information submitted on behalf of FSub 4's Segment 1 (Business B) is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
76. Immediately after the FSub 2 Distribution, at least 90 percent of the fair market value of the gross assets of FSub 2 will consist of the stock and securities of

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FSub 3, which is engaged in the active conduct of a trade or business as defined in § 355(b)(2).

77. The five years of financial information submitted on behalf of FSub 3's Business A is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
78. Following the FSub 2 Distribution, FSub 2 (through FSub 3) and FSub 4 will each continue the active conduct of its business, independently and with its separate employees.
79. The FSub 2 Distribution will be carried out for the following corporate business purpose: facilitate the separation of Business B from Business A to eliminate management, systemic, and other problems within Distributing's affiliated group. The FSub 2 Distribution is motivated, in whole or substantial part, by this corporate business purpose.
80. Except for the Contribution, there is no plan or intention by the shareholder or security holders of FSub 2 to sell, exchange, transfer by gift or otherwise dispose of any of their stock in, or securities of, either FSub 2 or FSub 4 after the FSub 2 Distribution.
81. There is no plan or intention by either FSub 2 or FSub 4, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the FSub 2 Distribution, other than through stock purchases meeting the requirements of § 4.05(1)(b) of Rev. Proc. 96-30.
82. There is no plan or intention to liquidate either FSub 2 or FSub 4, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the FSub 2 Distribution, except in the ordinary course of business.
83. Other than certain payables and receivables arising between FSub 2 and FSub 4 in the ordinary course of business, no intercorporate debt will exist between FSub 2 and FSub 4 at the time of, or subsequent to, the FSub 2 Distribution .
84. Payments made in connection with all continuing transactions, if any, between FSub 2 and FSub 4 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
85. The FSub 2 Distribution is not part of a plan or series of related transactions, within the meaning of § 355(e), pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either FSub 2 or FSub 4, or

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stock possessing 50 percent or more of the total value of all classes of stock of either FSub 2 or FSub 4.

86. Each of FSub 2 and FSub 4 will be a CFC, within the meaning of § 957(a), immediately before and immediately after the distribution by FSub 2 of the stock of FSub 4.
87. With respect to each of FSub 2 and FSub 4, Distributing will be a “§ 1248 shareholder,” within the meaning of § 1.367(b)-2(b), immediately before and after the FSub 2 Distribution.
88. Neither FSub 2 nor FSub 4 is, or will be, a PFIC, within the meaning of § 1297(a), immediately before or after the FSub 2 Distribution.

The following representations have been made in connection with the Country O Demerger (step (4)(d)(ii), above):

89. The indebtedness (if any) owed by FSub 17 to FSub 10 after the Country O Demerger will not constitute stock or securities.
90. No part of the consideration to be distributed by FSub 10 will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of FSub 10.
91. The five years of financial information submitted on behalf of FSub 10's Business A is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
92. The five years of financial information submitted on behalf of FSub 17's Segment 1 (Business B) is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
93. Following the Country O Demerger, FSub 10 and FSub 17 will each continue the active conduct of its business, independently and with its separate employees.
94. The Country O Demerger will be carried out for the following corporate business purpose: facilitate the separation of Business B from Business A to eliminate management, systemic, and other problems within Distributing's affiliated group. The Country O Demerger is motivated, in whole or substantial part, by this corporate business purpose.

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95. Except for the Contribution, there is no plan or intention by the shareholder or security holders of FSub 10 to sell, exchange, transfer by gift or otherwise dispose of any of their stock in, or securities of, either FSub 10 or FSub 17 after the Country O Demerger.
96. There is no plan or intention by either FSub 10 or FSub 17, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the Country O Demerger, other than through stock purchases meeting the requirements of § 4.05(1)(b) of Rev. Proc. 96-30.
97. There is no plan or intention to liquidate either FSub 10 or FSub 17, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the Country O Demerger, except in the ordinary course of business.
98. The total adjusted basis and the fair market value of the assets transferred to FSub 17 by FSub 10 each equals or exceeds the sum of the liabilities assumed by FSub 17 plus any liabilities to which the transferred assets are subject.
99. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject were incurred in the ordinary course of business and are associated with the assets being transferred.
100. No property is being transferred between FSub 10 and FSub 17 in connection with the Country O Demerger for which any investment credit determined under § 46 has been (or will be) claimed.
101. Other than certain payables and receivables arising between FSub 10 and FSub 17 in the ordinary course of business, no intercorporate debt will exist between FSub 10 and FSub 17 at the time of, or subsequent to, the Country O Demerger.
102. Payments made in connection with all continuing transactions, if any, between FSub 10 and FSub 17 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
103. No two parties to the Country O Demerger are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
104. The Country O Demerger is not part of a plan or series of related transactions, within the meaning of § 355(e), pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either FSub 10 or FSub 17, or stock possessing 50 percent or more of the total value of all classes of stock of either FSub 10 or FSub 17.

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105. Each of FSub 10, FSub 17, FSub 12, and FSub 13 will be a CFC, within the meaning of § 957(c), immediately before and immediately after the deemed transfer of the Country O Business B to FSub 17 and the deemed Country O distribution in connection with the Country O Demerger.
106. With respect to FSub 10, FSub 17, FSub 12, and FSub 13, Distributing will be a “§ 1248 shareholder”, within the meaning of § 1.367(b)-2(b), immediately before and after the deemed transfer of the Country O Business B to FSub 17 and the deemed distribution in connection with the Country O Demerger.
107. Neither FSub 10, FSub 17, FSub 12, nor FSub 13 will be PFICs within the meaning of § 1297 immediately before the deemed transfer of the Country O Business B to FSub 17 and the deemed Country O distribution in connection with the Country O Demerger.

The following representations have been made in connection with the Contribution (step (7), above) and the Controlled Distribution (step (8), above):

108. The indebtedness (if any) owed by Controlled to Distributing after the Controlled Distribution will not constitute stock or securities.
109. No part of the consideration to be distributed by Distributing will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.
110. The five years of financial information submitted on behalf of DSub A is representative of the corporation’s present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
111. Immediately after the Controlled Distribution, at least 90 percent of the fair market value of the gross assets of Controlled will consist of the stock and securities of DSub B, DSub C, FSub 4, and FSub 17 that are engaged in the active conduct of a trade or business as defined in § 355(b)(2).
112. Immediately after the Controlled Distribution, at least 90 percent of the fair market value of the gross assets of DSub B will consist of the stock and securities of DSub B-1 and DSub B-2 that are engaged in the active conduct of a trade or business as defined in § 355(b)(2).
113. The five years of financial information submitted on behalf of DSub B-1 is representative of the corporation’s present operation and, with regard to such

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- business, there have been no substantial operational changes since the date of the last financial statements submitted.
114. The five years of financial information submitted on behalf of DSub B-2 is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
  115. The five years of financial information submitted on behalf of DSub C is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
  116. The five years of financial information submitted on behalf of FSub 17's Segment 1 (Business B) is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
  117. The five years of financial information submitted on behalf of FSub 4's Segment 1 (Business B) is representative of the corporation's present operation and, with regard to such business, there have been no substantial operational changes since the date of the last financial statements submitted.
  118. Following the Controlled Distribution, Distributing and Controlled (through its subsidiaries) will each continue the active conduct of its business, independently and with its separate employees.
  119. The Controlled Distribution will be carried out for the following corporate business purpose: to separate Business B from Business A to eliminate management, systemic, and other problems within Distributing's affiliated group. The Controlled Distribution is motivated, in whole or substantial part, by this corporate business purpose.
  120. There is no plan or intention by any shareholder who owns five percent or more of the stock of Distributing, and the management of Distributing, to its best knowledge, it not aware of any plan or intention on the part of any particular remaining shareholder or security holder of Distributing to sell, exchange, transfer by gift or otherwise dispose of any of their stock in, or securities of, Distributing or Controlled after the Transaction.
  121. There is no plan or intention by either Distributing or Controlled, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the Controlled Distribution, other than through stock purchases meeting the requirements of § 4.05(1)(b) of Rev. Proc. 96-30.

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122. There is no plan or intention to liquidate either Distributing or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the Controlled Distribution, except in the ordinary course of business.
123. The total adjusted bases and the fair market value of the assets transferred to Controlled by Distributing each equals or exceeds the sum of the liabilities assumed by Controlled plus any liabilities to which the transferred assets are subject.
124. The liabilities assumed in the transaction and the liabilities to which the transferred assets are subject were incurred in the ordinary course of business and are associated with the assets being transferred.
125. Other than certain payables and receivables arising between Distributing and Controlled in the ordinary course of business, no intercorporate debt will exist between Distributing and Controlled at the time of, or subsequent to, the Controlled Distribution.
126. Immediately before the Controlled Distribution, items of income, gain, loss, deduction and credit will be taken into account as required by the applicable intercompany transaction regulations. Further, Distributing's excess loss account ("ELA"), if any, with respect to the Controlled common stock or any ELA in any direct or indirect subsidiary of Controlled will be included in income immediately before the Controlled Distribution.
127. Payments made in connection with all continuing transactions, if any, between Distributing (and its subsidiaries) and Controlled (and its subsidiaries) will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
128. No two parties to the Controlled Distribution are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).
129. The Controlled Distribution is not part of a plan or series of related transactions, within the meaning of § 355(e), pursuant to which one or more persons will acquire directly or indirectly stock possessing 50 percent or more of the total combined voting power of all classes of stock of either Distributing or Controlled.
130. Neither Distributing nor Controlled has been or will be a USRPHC, as defined in § 897(c)(2), at any time during the 5-year holding period ending on the date of the Controlled Distribution, and neither Distributing nor Controlled will be a USRPHC immediately after the Controlled Distribution.



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131. In connection with the transactions contemplated in the ruling request, it is not contemplated that Distributing or Controlled, or their respective domestic subsidiaries, will transfer property, directly or indirectly, to any foreign corporation in an exchange described in § 367(a).
132. In connection with the transactions contemplated in the ruling request, it is not contemplated that Distributing or Controlled, or their respective domestic subsidiaries, will transfer any intangible property, directly or indirectly, to any foreign corporation in an exchange described in § 367(d).
133. In connection with the transactions contemplated in the ruling request, it is not contemplated that Distributing or Controlled, or their domestic subsidiaries, will transfer property to a foreign partnership that would be subject to the reporting requirements of § 6038B.

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

### **The DSub B-3 Liquidation Rulings**

- (1) The conversion of DSub B-3 into DSub B-3 LLC, whose sole owner for federal income tax purposes will be DSub B, will constitute a liquidation of DSub B-3 into DSub B within the meaning of § 332.
- (2) No gain or loss will be recognized by DSub B on the deemed receipt of the assets and liabilities of DSub B-3 (§ 332(a)).
- (3) No gain or loss will be recognized by DSub B-3 on its deemed distribution of assets to, or the assumption of liabilities by, DSub B (§§ 336(d)(3) and 337(a)).
- (4) The basis of each asset of DSub B-3 in the hands of DSub B will equal the basis of that asset in the hands of DSub B-3 immediately before its conversion into a single member LLC (§ 334(b)(1)).
- (5) The holding period of each asset of DSub B-3 in the hands of DSub B will include the period during which such assets were held by DSub B-3 (§ 1223(2)).
- (6) DSub B will succeed to and take into account the items of DSub B-3 described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§ 381(a) and § 1.381(a)-1).
- (7) Except to the extent DSub B-3's earnings and profits are already reflected in DSub B's earnings and profits, DSub B will take into account the earnings and

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profits, or deficit in earnings and profits, of DSub B-3 as of the date of DSub B-3's conversion into a single member LLC (§§ 381(c)(2)(A), 1.381(c)(2)-1, and 1.1502-33(a)(2)). Any deficit in the earnings and profits of DSub B-3 or DSub B will be used only to offset earnings and profits accumulated after the conversion of DSub B-3 into a single member LLC.

### **The DSub A Liquidation Rulings**

- (8) The conversion of DSub A into DSub A LLC, whose sole owner for federal income tax purposes will be Distributing, will constitute a liquidation of DSub A into Distributing within the meaning of § 332.
- (9) No gain or loss will be recognized by Distributing on the deemed receipt of the assets and liabilities of DSub A (§ 332(a)).
- (10) No gain or loss will be recognized by DSub A on its deemed distribution of assets to, or the assumption of liabilities by, Distributing (§§ 336(d)(3) and 337(a)).
- (11) The basis of each asset of DSub A in the hands of Distributing will equal the basis of that asset in the hands of DSub A immediately before its conversion into a single member LLC (§ 334(b)(1)).
- (12) The holding period of each asset of DSub A in the hands of Distributing will include the period during which such assets were held by DSub A (§ 1223(2)).
- (13) Distributing will succeed to and take into account the items of DSub A described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§ 381(a) and § 1.381(a)-1).
- (14) Except to the extent DSub A's earnings and profits are already reflected in Distributing's earnings and profits, Distributing will take into account the earnings and profits, or deficit in earnings and profits, of DSub A as of the date of DSub A's conversion into a single member LLC (§§ 381(c)(2)(A), 1.381(c)(2)-1, and 1.1502-33(a)(2)). Any deficit in the earnings and profits of DSub A or Distributing will be used only to offset earnings and profits accumulated after the conversion of DSub A into a single member LLC.

### **The FSub 9 Liquidation Rulings**

- (15) The election under § 301.7701-3(c) to treat FSub 9 as a disregarded entity for federal income tax purposes, whose sole owner for federal income tax purposes will be DSub E, will constitute a liquidation of FSub 9 into DSub E within the meaning of § 332.

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- (16) No gain or loss will be recognized by DSub E on the deemed receipt of the assets and liabilities of FSub 9 (§ 332(a)).
- (17) No gain or loss will be recognized by FSub 9 on its deemed distribution of assets to, or the assumption of liabilities by, DSub E (§§ 336(d)(3) and 337(a)).
- (18) The basis of each asset of FSub 9 in the hands of DSub E will equal the basis of that asset in the hands of FSub 9 immediately before FSub 9 elects under § 301.7701-3(c) to be treated as a disregarded entity for federal income tax purposes (§ 334(b)(1)).
- (19) The holding period of each asset of FSub 9 in the hands of DSub E will include the period during which such assets were held by FSub 9 (§ 1223(2)).
- (20) DSub E will succeed to and take into account the items of FSub 9 described in § 381(c), other than the items described in §§ 381(c)(1), (2), and (3), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§ 381(a) and § 1.381(a)-1).
- (21) The FSub 9 Liquidation is a liquidating distribution to which §§ 1.367(b)-1(c)(2), 1.367(b)-3(a), and 1.367(b)-3(b)(3) apply. DSub E shall include in income as a deemed dividend the “all earnings and profits amount”, within the meaning of § 1.367(b)-2(d), with respect to its stock in FSub 9.

### **The DSub M Liquidation Rulings**

- (22) The conversion of DSub M into DSub M LLC, whose sole owner for federal income tax purposes will be Distributing, will constitute a liquidation of DSub M into Distributing within the meaning of § 332.
- (23) No gain or loss will be recognized by Distributing on the deemed receipt of the assets and liabilities of DSub M (§ 332(a)).
- (24) No gain or loss will be recognized by DSub M on its deemed distribution of assets to, or the assumption of liabilities by, Distributing (§§ 336(d)(3), 337(a) and (b)).
- (25) The basis of each asset of DSub M in the hands of Distributing will equal the basis of that asset in the hands of DSub M immediately before its conversion into a single member LLC (§ 334(b)(1)).
- (26) The holding period of each asset of DSub M in the hands of Distributing will include the period during which such assets were held by DSub M (§ 1223(2)).

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- (27) Distributing will succeed to and take into account the items of DSub M described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383, and 384 and the regulations thereunder (§ 381(a) and § 1.381(a)-1).
- (28) Except to the extent DSub M's earnings and profits are already reflected in Distributing's earnings and profits, Distributing will take into account the earnings and profits, or deficit in earnings and profits, of DSub M as of the date of DSub M's conversion into a single member LLC (§§ 381(c)(2)(A), 1.381(c)(2)-1, and 1.1502-33(a)(2)). Any deficit in the earnings and profits of DSub M or Distributing will be used only to offset earnings and profits accumulated after the conversion of DSub M into a single member LLC.

### **The FSub 3 Distribution Rulings**

- (29) No gain or loss will be recognized by FSub 3 upon the distribution of the FSub 4 stock to FSub 2 (§ 355(c)(1)).
- (30) No gain or loss will be recognized by (and no amount will be included in the income of) FSub 2 upon its receipt of the FSub 4 stock (§ 355(a)(1)).
- (31) The aggregate basis of FSub 3 and FSub 4 common stock in the hands of FSub 2 after the distribution will be the same as FSub 2's aggregate basis in the FSub 3 stock immediately before the FSub 3 Distribution (§ 358(a)(1)). The basis will be allocated among FSub 2's FSub 3 and FSub 4 stock in proportion to the fair market value of each under § 1.358-2(a)(2) (§§ 358(a)(1), (b), and (c)).
- (32) The holding period of the FSub 4 stock received by FSub 2 will include FSub 2's holding period of the FSub 3 shares on which the distribution is made, provided that the FSub 3 stock owned by FSub 2 is held as a capital asset on the date of the transaction (§ 1223(1)).
- (33) FSub 3's transfer of the stock of FSub 4 to FSub 2 is a distribution to which §§ 1.367(b)-1(c)(2), 1.367(b)-5(a), 1.367(b)-5(c) and 1.367(b)-5(f) apply. If FSub 2's postdistribution amount with respect to FSub 3 or FSub 4 is less than FSub 2's predistribution amount with respect to FSub 3 or FSub 4, FSub 2's basis in such stock immediately after the distribution, as determined in ruling (31), above, shall be reduced by the amount of such difference. However, FSub 2's basis in such stock shall not be reduced below zero, and to the extent the foregoing reduction would have reduced basis below zero, FSub 2 shall instead include such amount in income as a deemed dividend from such corporation. If FSub 2 reduces the basis in the stock of FSub 3 or FSub 4 (or has an income inclusion with respect to such stock), FSub 2 shall increase its basis in the stock of the other corporation to the extent provided in § 1.367(b)-5(c)(4).

**The FSub 2 Distribution Rulings**

- (34) No gain or loss will be recognized by FSub 2 upon the distribution of the FSub 4 stock to Distributing (§ 355(c)(1)).
- (35) No gain or loss will be recognized by (and no amount will be included in the income of) Distributing upon its receipt of the FSub 4 stock (§ 355(a)(1)).
- (36) The aggregate basis of FSub 4 and FSub 2 common stock in the hands of Distributing after the distribution will be the same as Distributing's aggregate basis in the FSub 2 stock immediately before the Distribution (§ 358(a)(1)). The basis will be allocated among Distributing's FSub 2 and FSub 4 stock in proportion to the fair market value of each under § 1.358-2(a)(2) (§§ 358(a)(1), (b) and (c)).
- (37) The holding period of the FSub 4 stock received by Distributing will include Distributing's holding period of the FSub 2 shares on which the distribution is made, provided that the FSub 2 stock owned by Distributing is held as a capital asset on the date of the transaction (§ 1223(1)).
- (38) FSub 2's transfer of the stock of FSub 4 to Distributing is a distribution to which §§ 1.367(b)-1(c)(2), 1.367(b)-5(a), 1.367(b)-5(c) and 1.367(b)-5(f) apply. If Distributing's postdistribution amount with respect to FSub 2 or FSub 4 is less than Distributing's predistribution amount with respect to FSub 2 or FSub 4, Distributing's basis in such stock immediately after the distribution, as determined in ruling (36), above, shall be reduced by the amount of such difference. However, Distributing's basis in such stock must not be reduced below zero, and to the extent the foregoing reduction would have reduced basis below zero, Distributing shall instead include such amount in income as a deemed dividend from such corporation. If Distributing reduces the basis in the stock of FSub 2 or FSub 4 (or has an income inclusion with respect to such stock), Distributing shall increase its basis in the stock of the other corporation to the extent provided in § 1.367(b)-5(c)(4).

**The Country O Demerger Rulings**

- (39) For federal income tax purposes, the Country O Demerger will be treated as if (i) FSub 10 formed FSub 17, (ii) FSub 10 transferred to FSub 17 the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 in exchange for FSub 17 common stock and the assumption by FSub 17 of liabilities associated with the transferred assets, and (iii) FSub 10 distributed all of the stock of FSub 17 to Distributing (*cf.* Rev. Rul. 77-191, 1977-1 C.B. 94).

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- (40) The transfer by FSub 10 to FSub 17 of the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 in exchange for the stock of FSub 17 and the assumption of liabilities associated with the transferred assets, followed by the distribution of all of the stock of FSub 17 to Distributing will be treated as a reorganization under § 368(a)(1)(D) of the Code. FSub 10 and FSub 17 will each be a “party to a reorganization” within the meaning of § 368(b).
- (41) No gain or loss will be recognized by FSub 10 on its transfer of the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 to FSub 17 in exchange for FSub 17 stock and the assumption of liabilities (§§ 361(a) and 357(a)).
- (42) No gain or loss will be recognized by FSub 17 on its receipt of the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 from FSub 10 in exchange for FSub 17 stock (§ 1032(a)).
- (43) No gain or loss will be recognized by FSub 10 upon the distribution to Distributing of all of the FSub 10's FSub 17 stock (§ 361(c)(1)).
- (44) No gain or loss will be recognized by (and no amount will be included in the income of) Distributing upon its receipt of FSub 10's FSub 17 stock (§ 355(a)(1)).
- (45) The basis of the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 in the hands of FSub 17 will be the same as the basis of the Country O Segment 1 (Business B) assets, the stock of FSub 12 and the stock of FSub 13 in FSub 10's hands immediately before the Country O Demerger (§ 362(b)).
- (46) Distributing's aggregate basis of the FSub 10 and FSub 17 stock after the Country O Demerger will be the same as Distributing's aggregate basis in FSub 10 immediately before the Country O Demerger (§ 358(a)(1)). The basis will be allocated among Distributing's FSub 17 and FSub 10 stock in proportion to the fair market value of each under § 1.358-2(a)(2) (§§ 358(a)(1), (b), and (c)).
- (47) The holding period of the Country O Segment 1 (Business B) assets, the stock of FSub 12, and the stock of FSub 13 received by FSub 17 in the contribution from FSub 10 will include the period during which FSub 10 held such assets (§ 1223(2)).
- (48) The holding period of FSub 17 stock received by Distributing from FSub 10 will be the same as the holding period of FSub 10 shares on which the distribution is made, provided that such FSub 10 shares are held as a capital asset on the date of the distribution (§ 1223(1)).

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- (49) FSub 10's transfer of the stock of the Country O Business B to FSub 17 in the Country O Demerger is an exchange to which §§ 1.367(b)-1(c)(2) and 1.367(b)-4(a) apply.
- (50) No amount will be included in income under § 367(b) on FSub 10's transfer of the Country O Business B to FSub 17 in the Country O Demerger (§ 1.367(b)-4(b)).
- (51) FSub 10's transfer of the stock of FSub 17 to Distributing in the Country O Demerger is a distribution to which §§ 1.367(b)-1(c)(2), 1.367(b)-5(a), 1.367(b)-5(c) and 1.367(b)-5(f) apply. If Distributing's postdistribution amount, as defined in § 1.367(b)-5(e)(2), with respect to FSub 10 or FSub 17 is less than Distributing's predistribution amount, as defined in § 1.367(b)-5(e)(1), with respect to FSub 10 or FSub 17, Distributing's basis in such stock immediately after the distribution, as determined in ruling (46), above, shall be reduced by the amount of such difference. However, Distributing's basis in such stock shall not be reduced below zero, and to the extent the foregoing reduction would have reduced basis below zero, Distributing shall instead include such amount in income as a deemed dividend from such corporation. If Distributing reduces the basis in the stock of FSub 10 or FSub 17 (or has an income inclusion with respect to such stock), Distributing shall increase its basis in the stock of the other corporation to the extent provided in § 1.367(b)-5(c)(4).

#### **The Controlled Distribution Rulings**

- (52) The transfer by Distributing to Controlled of the Contributed Assets in the Contribution in exchange for the stock of Controlled and all or a portion of the Borrowing Proceeds, followed by Distributing's distribution of Controlled stock to Distributing's shareholders, pro rata, will constitute a reorganization within the meaning of § 368(a)(1)(D). Distributing and Controlled will each be a "party to a reorganization" within the meaning of § 368(b).
- (53) No gain or loss will be recognized by Distributing on the Contribution provided that the Borrowing Proceeds received by Distributing are used to retire outstanding debt of Distributing (§§ 357(a), 361(a), 361(b)(1)(A), and 361(b)(3)).
- (54) No gain or loss will be recognized by Controlled on its receipt of the Contributed Assets from Distributing in exchange for Controlled stock (§ 1032(a)).
- (55) No gain or loss will be recognized by Distributing upon the distribution of the Controlled stock to Distributing's shareholders (§ 361(c)).
- (56) No gain or loss will be recognized by (and no amount will be included in the income of) Distributing's shareholders upon their receipt of the Controlled stock

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(§ 355(a)(1)).

- (57) The basis of the Contributed Assets in the hands of Controlled will be the same as the basis of the Contributed Assets in Distributing's hands immediately prior to the transaction (§ 362(b)).
- (58) The aggregate basis of the Distributing shareholders' Distributing and Controlled stock after the Controlled Distribution will be the same as such shareholders' aggregate basis in their Distributing stock immediately before the Controlled Distribution (§ 358(a)(1)). The basis will be allocated among the Distributing shareholders' Controlled and Distributing stock in proportion to the fair market value of each under § 1.358-2(a)(2) (§§ 358(a)(1), (b), and (c)).
- (59) The holding period of the Contributed Assets received by Controlled in the Contribution from Distributing will include the period during which Distributing held such assets (§ 1223(2)).
- (60) The holding period of the Controlled stock in the hands of the Distributing shareholders will include the holding period of the Distributing stock with respect to which the Distribution is made, provided that such Distributing stock is held as a capital asset on the date of the Distribution (§ 1223(1)).
- (61) Proper allocation of earnings and profits between Distributing and Controlled will be made under §§ 1.312-10(a) and 1.1502-33.
- (62) The holders of Distributing compensatory options will not recognize any income upon the receipt of modified Distributing compensatory options and similar options granted by Controlled pursuant to the plan of distribution.
- (63) Controlled will recognize no gain or loss upon the exercise of Distributing compensatory options (§ 1032).
- (64) Where cash is received by a Distributing shareholder in lieu of fractional share interests of Controlled common stock, Distributing will be treated as distributing the fractional share to the shareholder and such fractional share will be treated as having been disposed of by such shareholder for the amount of such cash in a sale or exchange. The gain (or loss), if any, will be treated as a capital gain (or loss), provided such stock was held as a capital asset by the selling Distributing shareholder (§ 1001).

We express no opinion on the tax treatment of the transaction under other provisions of the Code and regulations or about 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 rulings. Specifically, no opinion is expressed regarding the following:



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- (1) The tax consequences of the Country K restructuring, including, but not limited to, (i) the recognition of gain on the deemed transfer by FSub 5 of the stock of FSub 6 to FSub 14 in the FSub 5 Demerger and the application of subpart F and § 964(e) to such transaction, (ii) the recognition of gain and dividend treatment on the deemed distribution by FSub 5 of the stock of FSub 14 to DSub E and the application of subpart F and § 964(e) thereto, and (iii) the recognition of gain and dividend treatment on the sale by DSub E of the stock of FSub 14 to DSub 15 in partial repayment of debt to DSub 15 and the application of § 304, or § 1248(a), if any, to such transaction.
- (2) The tax consequences of the Country L restructuring (other than the FSub 9 Liquidation), including, but not limited to, whether there are partnership terminations under § 708 and the effects thereof, as well as the application of other provisions of subchapter K (i) to DSub E, FP 2 and FP 3 in connection with the FSub 9 Liquidation and (ii) to DSub E, DSub 15, FP 2, and FP 3 on the subsequent transfer by DSub E of the respective interests in FP 2 and FP 3 to DSub 15 in partial repayment of debt to DSub 15.
- (3) The tax consequences of the sale of Business TT, including, but not limited to, (i) the recognition of gain and the application of subpart F to the deemed transfer by FSub 10 of the Business TT assets to TT Country O in connection with the TT Country O Demerger, (ii) the recognition of gain and dividend treatment on the deemed distribution by FSub 10 of the stock of TT Country O to DSub M in connection with the TT Country O Demerger, and (iii) the recognition of gain and the application of § 1248 on the sale by DSub M of the stock of TT Country O to an unrelated party following the TT Country O Demerger.
- (4) The classifications of FSub 9, FSub 16, FP 2, and FP 3 under §§ 7701 and 301.7701-3.
- (5) Adjustments to earnings and profits or deficit in earnings and profits, if any, in the foreign restructuring transactions to which § 367(a) or (b) apply.
- (6) Whether any or all of the above-referenced foreign corporations are passive foreign investment companies (within the meaning of § 1297(a) of the Code and the regulations to be promulgated thereunder). If it is determined that any or all of the above-described foreign corporations are passive foreign corporations, no opinion is expressed with respect to the application of §§ 1291 through 1298 to the proposed transactions. In particular, in a transaction in which gain is not otherwise recognized,

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regulations under § 1291(f) may require gain recognition notwithstanding any other provision of the Code.

The rulings contained in this letter are predicated upon the 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 request for a ruling. Verification of the information, representations, and other data may be required as part of the audit process.

This ruling has no effect on any earlier document and is directed only to the taxpayer 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 taxable year in which the transactions covered by this ruling letter are consummated.

Pursuant to a power of attorney on file in this office, we have sent a copy of this letter to your authorized representative.

Sincerely,

Associate Chief Counsel (Corporate)

By: Ken Cohen

Ken Cohen

Senior Technician Reviewer, Branch 3