

Internal Revenue Service

Department of the Treasury

Number: **200335023**
Release Date: 8/29/2003
Index Numbers: 355.01-00; 368.04-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:CORP:B04 PLR-122344-03
Date:
May 27, 2003

i =
Date 3 =
Agency =
Activity A =
Trust =

Dear

This letter responds to your March 5, 2003 request that we supplement our letter ruling dated January 12, 2002 (PLR-152312-01) (the "Prior Letter Ruling"). The information submitted for consideration is summarized below. Capitalized terms not defined in this letter have the meanings assigned them in the Prior Letter Ruling.

The rulings contained in this letter are based on information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

The Prior Letter Ruling addresses certain federal income tax consequences of the formation of Controlled A and Controlled B and the distribution by Distributing of all of the Controlled A stock and the Controlled B stock to Shareholder 1, Shareholder 2, Shareholder 4, and Shareholder 5 in exchange for Distributing stock held by each shareholder. The Proposed Transaction was completed on Date 3.

Facts

Agency administers several Business A programs, including one that provides subsidies to individuals and certain entities for Activity A. Distributing, Controlled A, and Controlled B each participate in the same subsidy program.

After the Proposed Transaction was completed, Agency partially denied the benefits that were applied for by Controlled A and Controlled B. The denial was due to Shareholder 1's direct and beneficial ownership of stock of Distributing, Controlled A, and Controlled B as determined under Agency's rules and regulations. Pursuant to those rules and regulations, two of Shareholder 1's direct or beneficial ownership interests in Distributing, Controlled A, or Controlled B must be eliminated in order for Controlled A and Controlled B to become fully eligible for program benefits.

Accordingly, Distributing has proposed the following transaction (the "Stock Purchases"):

- (i) Shareholder 2 will purchase all of the Controlled A stock held by Shareholder 5.
- (ii) Shareholder 4 will purchase all of the Controlled B stock held by Shareholder 5.
- (iii) Shareholder 3 will purchase j percent of the Distributing stock held by Shareholder 5.

After the Stock Purchases are completed, Shareholder 5 will terminate and, pursuant to its terms, distribute its remaining Distributing stock to Trust (the "Trust Distribution"). Shareholder 1 is the life beneficiary of Trust and holds a power of appointment over the remainder interest in Trust.

Representations

In response to these changes, Distributing reaffirms the representations set forth in the Prior Letter Ruling as of Date 3 and makes the following representations concerning the transaction described above:

(u) At the time of the Proposed Transaction, none of the parties to the Proposed Transaction had any reason to believe that the consummation of the Proposed Transaction would affect either Controlled A's or Controlled B's eligibility for program benefits.

(v) At no time before the Proposed Transaction did any of the parties to the Proposed Transaction discuss a subsequent sale of Shareholder 5's Distributing stock, Controlled A stock, or Controlled B stock.

PLR-122344-03

(w) Shareholder 1 will provide by will that, upon Shareholder 1's death, the stock of Distributing, Controlled A, and Controlled B held by Trust and Shareholder 1 directly will be distributed to the shareholder owning the balance of the stock of each respective corporation.

(x) The trustees of Trust will give Shareholder 3 an irrevocable proxy, for the term of Trust, concerning the voting of the Distributing stock held by Trust.

Ruling

Based solely on the information and representations submitted with the original and supplemental ruling requests, we rule that neither the Stock Purchases nor the Trust Distribution will affect the Prior Letter Ruling or prevent the Prior Letter Ruling from having full force and effect.

Caveats

We express no opinion about the tax treatment of the transactions described above under any provision of the Code or regulations or the tax treatment of any condition existing at the time of, or effect resulting from, the transaction that is not specifically covered by the above rulings. In particular, no opinion is expressed concerning the tax treatment of the Stock Purchases or the Trust Distribution that is not specifically covered by the above rulings.

Procedural Matters

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

Each taxpayer involved in this transaction should attach a copy of this letter together with the Prior Letter Ruling to the taxpayer's federal income tax return for the taxable year in which the transaction covered by this letter is completed.

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

Sincerely,

Richard K. Passales

Richard K. Passales
Senior Counsel, Branch 4
Office of Associate Chief Counsel
(Corporate)