

**Internal Revenue Service**

Department of the Treasury

Number: **200348025**  
Release Date: 11/28/2003  
Index Numbers: 338.01-02  
9100.07-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:B03 - PLR-148567-03

Date:

August 27, 2003

LEGEND

Purchaser =

Target =

Sellers =

Date A =

Date B =

Date C =

Date D =

Company Official =

Tax Professional =

Dear

This letter responds to a letter dated August 12, 2003, submitted on behalf of Purchaser and Sellers, requesting an extension of time under § 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)-1T(c) of the Income Tax Regulations with respect to Purchaser’s acquisition of the stock of Target (sometimes hereinafter referred to as the “Election”), on Date B. (Citations in this letter to regulations under § 338 are to regulations in effect on Date B.) Additional information was received on August 22, 2003, and August 26, 2003. The material information is summarized below.

Purchaser is a corporation organized for the purpose of acquiring Target. Prior to the acquisition, Target was an “S” corporation within the meaning of § 1361. All of the issued and outstanding stock of Target was owned by Sellers. Prior to the acquisition, none of the Sellers, Purchaser or Target were members of a consolidated group.

On Date A, Purchaser and Sellers entered into a stock purchase agreement for Purchaser to acquire all of the Target stock from Sellers. On Date B, Purchaser acquired all of the stock of Target from Sellers in exchange for cash. Following the acquisition, Target was merged with and into Purchaser. It is represented that Purchaser’s acquisition of the stock of Target qualified as a “qualified stock purchase,” as defined in § 338(d)(3).

Purchaser and Sellers intended to file the Election. The Election was due on Date C, but Purchaser is unable to establish whether a valid Election was filed. All relevant tax returns were filed reporting the tax consequences of the acquisition consistent with the making of a valid Election.

Subsequently, this request was submitted, under § 301.9100-3, for an extension of time to file the Election. The period of limitations on assessment under § 6501(a) has not expired for Purchaser’s or Sellers’ taxable years 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.

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” or a “§ 338(h)(10) election” and (2) the acquisition is a “qualified stock purchase.”

Section 338(h)(10) permits the purchasing corporation and sellers to elect jointly to treat the target corporation as deemed to sell all of its assets and distribute the proceeds in complete liquidation. A § 338(h)(10) election may be made for target only if purchaser acquires stock meeting the requirements of § 1504(a)(2) from a selling consolidated group, a selling affiliate, or the S corporation shareholders in a qualified stock purchase. Section 1.338(h)(10)-1T(c)(1).

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.

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)-1T(c)(2)). Therefore, the Commissioner has discretionary authority under § 301.9100-3 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, Sellers, Company Official and Tax Professional explain the circumstances surrounding the intended filing of the Election on or before Date C. The information establishes that Purchaser reasonably relied on a qualified tax professional, the request for relief was filed before failure to make the Election was discovered by the Internal Revenue Service, and that 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 § 301.9100-3, until Date D, for Purchaser and Sellers to file the Election with respect to the acquisition of the stock of Target, as described above.

NO LATER THAN DATE D, Purchaser and Sellers must file the Election on Form 8023 in accordance with § 1.338(h)(10)T-1(c) and the instructions to the form. A copy of this letter must be attached to Form 8023. Additionally, NO LATER THAN DATE D, Purchaser and Sellers, having previously filed all returns reporting the tax consequences of the acquisition consistent with the making of a valid Election, must amend their returns for the taxable year in which the transaction was consummated (and for any other affected taxable year) by attaching a copy of this letter and a copy of Form 8883 to the returns.

The above extension of time is conditioned on the taxpayers' (Purchaser's, Sellers', 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 applicable 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' tax liability is lower. Section 301.9100-3(c).

We express no opinion as to: (1) whether 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) any other tax consequences arising from the Election.

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 § 301.9100-3, we relied on certain statements and representations made by the taxpayers. However, the Director should verify all essential facts. In addition, notwithstanding that an extension is granted under § 301.9100-3 to file the Election, penalties and interest that would otherwise be applicable, if any, continue to apply.

Purchaser must provide Sellers with a copy of this letter.

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.

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

Sincerely,

*Ken Cohen*

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Ken Cohen  
Senior Technician Reviewer, Branch 3  
Office of Associate Chief Counsel (Corporate)

cc: