

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:INTL:Br3-PLR-156425-01

Date:

February 13, 2002

Legend

Corp A =

Corp B =

Corp C =

Corp D =

Date 1 =

Date 2 =

Date 3 =

x percent =

y percent =

Dear _____ :

This is in response to a letter dated October 10, 2001, requesting a ruling that Corp A and its subsidiaries be permitted to change to the tax book value method of asset valuation for purposes of apportioning interest expense for their tax year ending on Date 1, 2001.

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 A is a domestic corporation that is the parent of an affiliated group of corporations

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that files a consolidated federal income tax return on a calendar year basis. Corp B had changed its name to Corp A in connection with a merger that occurred on Date 2, 2001. Under this merger, a subsidiary of Corp B merged into Corp C, a domestic corporation, and Corp C became a wholly owned subsidiary of Corp B. Prior to Date 2, 2001, Corp C was the common parent of an affiliated group of corporations that filed a consolidated federal income tax return on a calendar year basis. Also as a result of the merger, Corp D, a domestic corporation, became a member of the Corp A affiliated group. Prior to the merger, Corp D was the common parent of an affiliated group of corporations that filed a consolidated federal income tax return on a calendar year basis. As of Date 2, 2001, Corp D was x percent owned by a wholly-owned domestic subsidiary of Corp B and y percent owned by a wholly-owned domestic subsidiary of Corp C.

Prior to the merger, Corp B and Corp D had consistently used the tax book value method of asset valuation, as described in Temp. Treas. Reg. §1.861-9T(g), for purposes of interest expense apportionment. For several years prior to the merger, Corp C used the fair market value method of asset valuation, as described in Temp. Treas. Reg. §1.861-9T(h).

As a result of the merger, Corp C and Corp D and their subsidiaries will be included in Corp A's consolidated federal income tax return for the portion of Corp A's tax year beginning on Date 3, 2001.

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.

Temp. Treas. Reg. §1.861-9T sets forth the rules specific to the apportionment of interest expense. Temp. Treas. Reg. §1.861-9T(g)(1)(ii) provides that a taxpayer may elect to determine the value of its assets on the basis of either the tax book value method or the fair market value of its assets. Temp. Treas. Reg. §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.

Temp. Treas. Reg. §1.861-9T(g)(1)(iii) provides that if the taxpayer chooses 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. Temp. Treas. Reg. §1.861-9T(h) sets forth the rules for determining the fair market value of taxpayer's assets under the fair market value method.

Corp A requests, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), that Corp C and Corp D and their subsidiaries be permitted to use the tax book value method of asset valuation to apportion interest expense effective for the tax

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year beginning on Date 3, 2001. This request was made in order to conform, following the merger, the method of valuing assets to apportion interest used by Corp C and its subsidiaries to the method used by Corp B and Corp D and their subsidiaries. Corp A's ruling request states that Corp C desires to use the tax book value method because that method: (1) decreases complexity and avoids potential disagreements with the Service with respect to the fair market value of assets; (2) avoids the cost of having fair market value studies performed; and (3) provides greater certainty of tax results to both the taxpayer and the Service.

Based solely upon the information submitted, the representations made, and the reasons given for this request, Corp C and its subsidiaries may change from the fair market value method of asset valuation for purposes of apportioning interest expense to the tax book value method, pursuant to Temp. Treas. Reg. §§1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for the tax year beginning on Date 3, 2001. Corp A and its subsidiaries, including Corp C and Corp D and their subsidiaries, may use the tax book value method of asset valuation for purposes of apportioning interest expense for their tax year ending on Date 1, 2001.

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
Senior Technical Reviewer, Branch 3
Office of the Associate Chief Counsel
(International)