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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

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Date:

February 05, 2004

Distributing =

Controlled =

NewParent =

MergeCo =

Country A Distributing 1 =

Country A Distributing 2 =

Country A Controlled 1 =

Country A Controlled 2 =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

FSub 1 =

FSub 2 =

FSub 3 =

FSub 4 =

FSub 5 =

FSub 6 =

DE 1 =

DE 2 =

DE 3 =

DE 4 =

DE 5 =

DE 6 =

DE 7 =

DE 8 =

Family =

Fund =

Business A =

Business B =

Business C =

Business D =

State A =

City A =

City B =

Country A =

Country B =

X =

Y =

Dear

This letter responds to your August 7, 2003 request for rulings regarding certain federal income tax consequences of proposed transactions. The information submitted in that request and in later correspondence is summarized below.

The rulings contained in this letter are based on 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 rulings. Verification of the information, representations, and other data may be required as part of the audit process.

### **Summary of Facts**

Publicly traded Distributing is the common parent of an affiliated group whose includible corporations join in filing a consolidated federal income tax return.

Distributing has one class of common stock outstanding,  $\underline{x}$  percent owned by Family and  $\underline{y}$  percent by Fund. Based on public securities filings, Distributing believes that Family and Fund are the only beneficial owners of five percent or more (by voting power or fair market value) of the outstanding Distributing stock.

Distributing wholly owns Controlled, Country A Distributing 2, Sub 1, Sub 2, Sub 3, FSub 1, FSub 2, DE 1, DE 2, and DE 3. Controlled wholly owns Sub 4. Country A Distributing 2 wholly owns Country A Distributing 1. Sub 1 wholly owns FSub 3. FSub 1 wholly owns FSub 4, which wholly owns FSub 5. DE 3 wholly owns FSub 6 and DE 4. Each FSub, and each above DE, is a foreign entity, and each above DE has elected to be disregarded as separate from its owner for United States federal tax purposes under § 301.7701-3(a) of the Procedure and Administrative Regulations (a "disregarded entity").

Distributing, Sub 2, and DE 3 each directly conducts, or has directly conducted, both Business A and Business B. Controlled, Sub 4, FSub 1, FSub 3, FSub 4, FSub 5, and DE 1 each directly conducts only Business A. FSub 2, FSub 6, DE 2, and DE 4 each directly conducts only Business B. Country A Distributing 1 directly conducts both Business C (which is closely related to Business A) and Business D (which is closely related to Business B). As a result of the Proposed Transactions described below, Business A and Business C will be transferred to the Controlled group, and Business B and Business D will remain with the Distributing group.

We have received financial information indicating that Business A (as directly conducted by Controlled), Business B (as directly conducted by Distributing and its disregarded entities, DE 2, DE 3, and DE 4), and Business C and Business D (both as directly conducted by Country A Distributing 1), each has had gross receipts and operating expenses representing the conduct of an active business during each of the past five years.

Business A and Business B are distinct businesses, each requiring unique knowledge and expertise. Business A is a growth operation, while Business B is in decline (although Distributing expects that its product will be marketable for at least ten more years). Consequently, each business must be managed differently. Business A requires a focus on growth through the development and marketing of new products and through acquisitions or joint ventures. Business B, which is highly regulated due to its hazardous nature, requires a focus on assets management and waning sales activity. Because of the Distributing group's current structure, however, neither business is able to fully pursue its needs. Business A has been limited in its ability to make acquisitions and enter joint ventures because of the regulatory limitations and potential environmental liabilities associated with Business B. Business B has been limited in its ability to develop opportunities for maximizing profitability because these

opportunities, and the resources needed to implement them, are inconsistent with senior management's focus on the larger and growing Business A.

To mitigate these systemic problems, Distributing has decided to functionally realign its subsidiaries under a new holding company structure. This realignment will permit Business A management and Business B management each to adopt strategies and pursue goals appropriate to its own business, taking into account differences in product lines, risk and return profiles, and growth potential.

### **Proposed Transactions**

Distributing proposes to create a holding company structure and realign its businesses through the following series of transactions (the "Proposed Transactions"):

#### Holding Company Transaction

- (i) Distributing will form a new subsidiary, NewParent, under State A law.
- (ii) NewParent will form a new subsidiary, MergeCo, under State A law.
- (iii) MergeCo will merge into Distributing in a reverse subsidiary merger under State A law, with Distributing surviving. In the merger, the shareholders of Distributing (the "transferors") will receive as the merger consideration voting common stock of NewParent in exchange for their shares of Distributing common stock.

In accordance with ruling (1) below, steps (i) through (iii) (collectively, the "Holding Company Transaction") will be treated as if the Distributing shareholders had transferred to NewParent all of the Distributing common stock solely in exchange for all of the outstanding NewParent common stock.

#### Internal Restructuring

- (iv) Distributing will contribute its Business A assets, including certain intangible assets associated with Business A, to a newly formed State A limited liability company wholly owned by Distributing ("DE 5"). DE 5 will not elect to be treated as a corporation and thus will be a disregarded entity.
- (v) In constructive exchange for additional shares of Controlled stock, Distributing will contribute to Controlled all of the ownership interests and stock of Sub 1, Sub 3 (currently a dormant entity), FSub 1, DE 1, and DE 5, all of which are directly or indirectly involved only with Business A.

(vi) Business A of Sub 2 will be transferred to Controlled through the following steps:

- (a) Distributing will form a new disregarded entity ("DE 6") under State A law;
- (b) Sub 2 will merge into DE 6 under State A law, with DE 6 surviving (the "Sub 2 Liquidation");
- (c) DE 6 will form a new disregarded entity ("DE 7") and contribute to DE 7 the Business A assets held by DE 6 (the Business A assets currently held by Sub 2);
- (d) DE 6 will distribute all of the ownership interests in DE 7 to Distributing; and
- (e) Distributing will contribute all of the ownership interests in DE 7 to Controlled in constructive exchange for additional shares of Controlled stock.

(vii) Business A of DE 3 will be transferred to Controlled through the following steps, which are intended to satisfy Country B legal requirements:

- (a) DE 3 will engage in a partial division transaction under Country B law, pursuant to which DE 3 will transfer its Business A to a newly formed Country B entity, DE 8, which will be a disregarded entity. Under Country B law, DE 8 will be incorporated at the time DE 3 transfers its Business A assets to DE 8, and DE 8 issues all of its shares directly to Distributing.
- (b) Distributing will contribute all the shares of DE 8 to Controlled in constructive exchange for additional shares of Controlled stock.

(viii) Business C of Country A Distributing 1 will be transferred to Controlled through the following steps, which are intended to satisfy Country A legal requirements:

- (a) Country A Distributing 1 will form Country A Controlled 1 as a new, wholly owned subsidiary treated as a corporation for U.S. federal tax purposes.
- (b) Country A Distributing 1 will transfer its Business C assets to Country A Controlled 1 in exchange for redeemable retractable preference shares of Country A Controlled 1 (the "preference shares").

(c) Country A Distributing 2 will subscribe for common shares of Country A Controlled 1 and contribute to Country A Controlled 1 Country A Distributing 1 stock having a value equal to Business C of Country A Distributing 1 in exchange for additional common stock of Country A Controlled 1.

(d) Country A Controlled 1 will redeem its preference shares from Country A Distributing 1 for a demand note of Country A Controlled 1.

(e) Country A Distributing 1 will redeem its common stock held by Country A Controlled 1 for a demand note of Country A Distributing 1 (in the same amount as the demand note of Country A Controlled 1).

(f) Country A Controlled 1 and Country A Distributing 1 will set off their respective demand notes in full satisfaction of each other.

In accordance with ruling (10) below, steps (viii)(a) through (f) will be disregarded and instead treated for U.S. federal tax purposes as if (i) Country A Distributing 1 had formed Country A Controlled 1, (ii) Country A Distributing 1 had transferred the Business C assets to Country A Controlled 1 in exchange for Country A Controlled 1 common stock (the "First Country A Contribution"), and (iii) Country A Distributing 1 had distributed all the stock of Country A Controlled 1 to Country A Distributing 2 (the "First Country A Distribution").

(g) Country A Distributing 2 will form Country A Controlled 2 under the laws of State A and contribute to Country A Controlled 2 all the common stock of Country A Controlled 1 (the "Second Country A Contribution").

(h) Country A Distributing 2 will distribute all the stock of Country A Controlled 2 to Distributing (the "Second Country A Distribution").

(i) Distributing will contribute all the stock of Country A Controlled 2 to Controlled in constructive exchange for additional shares of Controlled stock.

(ix) After the contributions described in steps (v), (vi)(e), (vii)(b), and (viii)(i) (collectively the "Contribution"), Distributing will distribute all the stock of Controlled to NewParent (the "Distribution").

Distributing's facility in City A, and Country A Distributing 1's facility in City B, historically have been heavily involved in Business B. However, they also provide certain Business A-related services to Controlled and other affiliates of Distributing. Distributing expects that after the Distribution, Distributing and Country A Distributing 1



will continue to provide these Business A-related services to Controlled and its subsidiaries under arm's-length agreements. Distributing also expects that, after the Holding Company Transaction, NewParent will form a wholly owned subsidiary to provide administrative and support functions for all of the companies in the NewParent group.

## **Representations**

### Holding Company Transaction

Distributing makes the following representations for the Holding Company Transaction described above in steps (i) through (iii):

(1a) No stock or securities will be issued for services rendered to or for the benefit of NewParent in connection with the proposed transaction, and no stock or securities will be issued for indebtedness of NewParent that is not evidenced by a security or for interest on indebtedness of NewParent accrued on or after the beginning of the holding period of the transferors for the debt.

(1b) The transfer is not the result of the solicitation by a promoter, broker, or investment house.

(1c) The transferors will not retain any rights in the property transferred to NewParent.

(1d) The value of the stock received in exchange for accounts receivable, if any, will equal the net value of the accounts transferred, *i.e.*, the face amount of the accounts receivable previously included in income less the amount of the reserve for bad debts.

(1e) Any debt relating to the stock being transferred that is being assumed (within the meaning of § 357(d) of the Internal Revenue Code (the "Code")) was incurred to acquire such stock and was incurred when such stock was acquired, and each transferor is transferring all of the stock for which the acquisition indebtedness being assumed (within the meaning of § 357(d)) was incurred.

(1f) The adjusted basis and the fair market value of the assets transferred by the transferors to NewParent will, in each instance, equal or exceed the sum of any liabilities assumed (within the meaning of § 357(d)) by NewParent.

(1g) Any liabilities of the transferors being assumed (within the meaning of § 357(d)) by NewParent were incurred in the ordinary course of business and are associated with the assets being transferred.

(1h) There is no indebtedness between NewParent and the transferors, and there will be no indebtedness created in favor of the transferors as a result of the transaction.

(1i) The transfers and exchanges will occur under a plan agreed upon before the transaction in which the rights of the parties are defined.

(1j) All exchanges will occur on approximately the same date.

(1k) There is no plan or intention on the part of NewParent to redeem or otherwise reacquire any stock or indebtedness issued in the proposed transaction.

(1l) Taking into account any issuance of additional shares of NewParent stock; any issuance of stock for services; the exercise of any NewParent stock rights, warrants, or subscriptions; a public offering of NewParent stock; and the sale, exchange, transfer by gift, or other disposition of any stock of NewParent to be received in the exchange, the transferors will be in "control" of NewParent within the meaning of § 368(c).

(1m) Each transferor will receive stock, securities, or other property having a fair market value approximately equal to the fair market value of the property transferred to NewParent or for services rendered or to be rendered for the benefit of NewParent.

(1n) NewParent will remain in existence and retain and use the property transferred to it in a trade or business.

(1o) There is no plan or intention by NewParent to dispose of the transferred property other than in the normal course of business operations.

(1p) Each of the parties to the transaction will pay its own expenses, if any, incurred in connection with the proposed transaction. It is not anticipated that the shareholders of Distributing will have any expenses in connection with the proposed transaction.

(1q) NewParent will not be an investment company within the meaning of § 351(e)(1) and § 1.351-1(c)(1)(ii) of the Income Tax Regulations (the "Regulations").

(1r) The transferors are not under the jurisdiction of a court in a title 11 or similar case (within the meaning of § 368(a)(3)(A)), and the stock or securities received in the exchange will not be used to satisfy the indebtedness of such debtor.

(1s) NewParent will not be a "personal service corporation" within the meaning of § 269A.

### First Country A Contribution and Distribution

Distributing makes the following representations for the First Country A Contribution and Distribution described above in steps (viii)(a) through (f):

(2a) No part of the consideration distributed by Country A Distributing 1 will be received by Country A Distributing 2 as a creditor, employee, or in any capacity other than that of a shareholder of Country A Distributing 1.

(2b) The five years of financial information concerning Business C and Business D (both as directly conducted by Country A Distributing 1) represents the present operation of Country A Distributing 1, and regarding these businesses, there have been no substantial operational changes since the date of the last financial statements submitted.

(2c) Following the transaction, Country A Distributing 1 and Country A Controlled 1 each will continue the active conduct of its business, independently and with its separate employees.

(2d) Immediately after the First Country A Distribution, the gross assets of the trade or business conducted by Country A Distributing 1 (directly or through disregarded entities) that is relied upon by Country A Distributing 1 to satisfy the active trade or business requirement of § 355(b) (Business D) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Country A Distributing 1 (taking into account the assets of such disregarded entities).

(2e) Immediately after the First Country A Distribution, the gross assets of the trade or business conducted by Country A Controlled 1 (directly or through disregarded entities) that is relied upon by Country A Controlled 1 to satisfy the active trade or business requirement of § 355(b) (Business C) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Country A Controlled 1 (taking into account the assets of such disregarded entities).

(2f) The First Country A Distribution is carried out to facilitate the division of Distributing's businesses along functional lines, which will enhance the ability of each management group to focus on its business and pursue opportunities that are unavailable or impractical under the current structure. The distribution of the stock of Country A Controlled 1 is motivated, in whole or in substantial part, by this corporate business purpose.

(2g) Other than the Second Country A Distribution, there is no plan or intention by any shareholder or security holder of Country A Distributing 1 to sell, exchange,

transfer by gift, or otherwise dispose of any of its stock in, or securities of, either Country A Distributing 1 or Country A Controlled 1 after the First Country A Distribution.

(2h) There is no plan or intention by either Country A Distributing 1 or Country A Controlled 1, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30, 1996-1 C.B. 696.

(2i) There is no plan or intention to liquidate either Country A Distributing 1 or Country A Controlled 1, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.

(2j) The total adjusted basis and fair market value of the assets transferred to Country A Controlled 1 by Country A Distributing 1 each equals or exceeds the sum of the liabilities assumed (within the meaning of § 357(d)) by Country A Controlled 1.

(2k) Any liabilities assumed (within the meaning of § 357(d)) in the transaction were incurred in the ordinary course of business and are associated with the assets being transferred.

(2l) Other than debts arising from certain Business C-related sales and services to be provided by Country A Distributing 1 to Country A Controlled 1, no intercorporate debt will exist between Country A Distributing 1 and Country A Controlled 1 at the time of, or after, the First Country A Distribution.

(2m) Payments made in any continuing transactions between Country A Distributing 1 and Country A Controlled 1 will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's-length.

(2n) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(2o) For purposes of § 355(d), immediately after the First Country A Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Country A Distributing 1 stock entitled to vote or 50 percent or more of the total value of shares of all classes of Country A Distributing 1 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the First Country A Distribution.

(2p) For purposes of § 355(d), immediately after the First Country A Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Country A Controlled 1

stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Country A Controlled 1 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the First Country A Distribution, or (ii) attributable to distributions on Country A Distributing 1 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the First Country A Distribution.

(2q) The First Country A Distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7T) 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 Country A Distributing 1 or Country A Controlled 1, or stock possessing 50 percent or more of the total value of all classes of stock of such corporations.

(2r) Country A Distributing 1 will be a corporation, within the meaning of § 7701(a)(3), at all times before and immediately after the First Country A Distribution.

(2s) Country A Controlled 1 will be a corporation, within the meaning of § 7701(a)(3), at all times before and immediately after the First Country A Distribution.

(2t) At all times before and immediately after the First Country A Distribution, Country A Distributing 1 and Country A Controlled 1 will be controlled foreign corporations (within the meaning of § 957(a)), but neither corporation is or will be a passive foreign investment company (as defined by § 1297(a)).

(2u) With respect to each of Country A Distributing 1 and Country A Controlled 1, Country A Distributing 2 will be a § 1248 shareholder, within the meaning of § 1.367(b)-2(b), immediately before and after the First Country A Distribution.

(2v) The notice requirements of § 1.367(b)-1(c)(1) will be met for the First Country A Contribution and the First Country A Distribution.

(2w) Country A Distributing 1's deemed transfer of Business C to Country A Controlled 1 in exchange for all the stock of Country A Controlled 1 is not an exchange described in § 1.367(b)-4(b)(1)(i), -4(b)(2)(i), or -4(b)(3).

(2x) Following the First Country A Distribution, Country A Distributing 2 will compute its predistribution and postdistribution amount with respect to Country A Distributing 1 and Country A Controlled 1 as defined under § 1.367(b)-5(e)(1) and (2). To the extent the predistribution amount exceeds the postdistribution amount with respect to either Country A Distributing 1 or Country A Controlled 1, Country A Distributing 2 will make basis adjustments and recognize income (if any), as required under the applicable Treasury regulations.

(2y) Neither Country A Distributing 1 nor Country A Controlled 1 has been or will be a United States real property holding corporation (“USRPHC”) as defined in § 897(c)(2), at any time during the five-year period ending on the date of the First Country A Distribution, and neither of them will be a USRPHC immediately thereafter.

#### Second Country A Contribution and Distribution

Distributing makes the following representations for the Second Country A Contribution and Distribution described above in steps (viii)(g) and (h):

(3a) No part of the consideration distributed by Country A Distributing 2 will be received by Distributing as a creditor, employee, or in any capacity other than that of a shareholder of Country A Distributing 2.

(3b) The five years of financial information concerning Business C and Business D (both as directly conducted by Country A Distributing 1) submitted on behalf of Country A Distributing 2 (which will rely indirectly on Business D) and Country A Controlled 2 (which will rely indirectly on Business C) represents the present operation of these businesses by Country A Distributing 1, and regarding these businesses, there have been no substantial operational changes since the date of the last financial statements submitted.

(3c) Immediately after the Second Country A Distribution, at least 90 percent of the fair market value of the gross assets of Country A Distributing 2 will consist of the stock and securities of a controlled corporation (Country A Distributing 1) that is engaged in the active conduct of a trade or business as defined in § 355(b)(2) (Business D).

(3d) Immediately after the Second Country A Distribution, at least 90 percent of the fair market value of the gross assets of Country A Controlled 2 will consist of the stock and securities of a controlled corporation (Country A Controlled 1) that is engaged in the active conduct of a trade or business as defined in § 355(b)(2) (Business C).

(3e) Following the transaction, Country A Distributing 1 and Country A Controlled 1 each will continue the active conduct of its business, independently and with its separate employees. Country A Distributing 2 and Country A Controlled 2 will rely on the businesses of Country A Distributing 1 and Country A Controlled 1, respectively, to satisfy the active trade or business requirement of § 355(b).

(3f) Immediately after the Second Country A Distribution, the gross assets of the trade or business conducted by Country A Distributing 1 (directly or through disregarded entities) that is relied upon by Country A Distributing 1 to satisfy the active trade or business requirement of § 355(b) (Business D) will have a fair market value that is equal

to or greater than five percent of the total fair market value of the gross assets of Country A Distributing 1 (taking into account the assets of such disregarded entities).

(3g) Immediately after the Second Country A Distribution, the gross assets of the trade or business conducted by Country A Controlled 1 (directly or through disregarded entities) that is relied upon by Country A Controlled 1 to satisfy the active trade or business requirement of § 355(b) (Business C) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Country A Controlled 1 (taking into account the assets of such disregarded entities).

(3h) The Second Country A Distribution is carried out to facilitate the division of Distributing's businesses along functional lines, which will enhance the ability of each management group to focus on its business and pursue opportunities that are unavailable or impractical under the current structure. The distribution of the stock of Country A Controlled 1 is motivated, in whole or in substantial part, by this corporate business purpose.

(3i) Other than the proposed contribution of Country A Controlled 2 stock by Distributing to Controlled after the Second Country A Distribution, there is no plan or intention by any shareholder or security holder of Country A Distributing 2 to sell, exchange, transfer by gift, or otherwise dispose of any of its stock in, or securities of, either Country A Distributing 2 or Country A Controlled 2 after the Second Country A Distribution.

(3j) There is no plan or intention by either Country A Distributing 2 or Country A Controlled 2, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.

(3k) There is no plan or intention to liquidate Country A Distributing 2, Country A Distributing 1, Country A Controlled 2, or Country A Controlled 1, to merge any of these corporations with any other corporation, or to sell or otherwise dispose of the assets of any of these corporations after the transaction, except in the ordinary course of business.

(3l) The total adjusted basis and fair market value of the assets transferred to Country A Controlled 2 by Country A Distributing 2 each equals or exceeds the sum of the liabilities assumed (within the meaning of § 357(d)) by Country A Controlled 2.

(3m) Any liabilities assumed (within the meaning of § 357(d)) in the transaction were incurred in the ordinary course of business and are associated with the assets being transferred.

(3n) Other than debts arising from certain Business C-related sales and services to be provided by Country A Distributing 2 to Country A Controlled 2, no intercorporate debt will exist between Country A Distributing 2 and Country A Controlled 2 at the time of, or after, the Second Country A Distribution.

(3o) Immediately before the Second Country A Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see §§ 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597, 1995-2 C.B. 147, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account Country A Distributing 2 may have in the Country A Controlled 2 stock will be included in income immediately before the distribution to the extent required by applicable regulations (see § 1.1502-19).

(3p) Payments made in any continuing transactions between Country A Distributing 2 and Country A Distributing 1, on the one hand, and Country A Controlled 2 and Country A Controlled 1, on the other hand, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's-length.

(3q) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(3r) For purposes of § 355(d), immediately after the Second Country A Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Country A Distributing 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Country A Distributing 2 stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Second Country A Distribution.

(3s) For purposes of § 355(d), immediately after the Second Country A Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Country A Controlled 2 stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Country A Controlled 2 stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Second Country A Distribution, or (ii) attributable to distributions on Country A Distributing 2 stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Second Country A Distribution.

(3t) The Second Country A Distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7T) 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 Country A Distributing 2 or Country A Controlled 2, or stock possessing 50 percent or more of the total value of all classes of stock of such corporations.

### Contribution and Distribution

Distributing makes the following representations regarding the Contribution and Distribution described above in steps (v), (vi)(e), (vii)(b), (viii)(i), and (ix):

(4a) Any indebtedness owed by Controlled to Distributing after the Distribution will not constitute stock or securities.

(4b) No part of the consideration distributed by Distributing will be received by NewParent as a creditor, employee, or in any capacity other than that of a shareholder of Distributing.

(4c) The five years of financial information concerning Business A (as directly conducted by Controlled) and Business B (as directly conducted by Distributing and its disregarded entities, DE 2, DE 3, and DE 4) submitted by the taxpayer represents the present operation of each business, and regarding each business, there have been no substantial operational changes since the date of the last financial statements submitted.

(4d) Following the transaction, Distributing and Controlled each will continue the active conduct of its business, independently and with its separate employees.

(4e) Immediately after the Distribution, the gross assets of the trade or business conducted by Distributing (directly or through disregarded entities) that is relied upon by Distributing to satisfy the active trade or business requirement of § 355(b) (Business B) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Distributing (taking into account the assets of such disregarded entities).

(4f) Immediately after the Distribution, the gross assets of the trade or business conducted by Controlled (directly or through disregarded entities) that is relied upon by Controlled to satisfy the active trade or business requirement of § 355(b) (Business A) will have a fair market value that is equal to or greater than five percent of the total fair market value of the gross assets of Controlled (taking into account the assets of such disregarded entities).

(4g) The Distribution is carried out to facilitate the division of Distributing's businesses along functional lines, which will enhance the ability of each management

group to focus on its business and pursue opportunities that are unavailable or impractical under the current structure. The Distribution is motivated, in whole or in substantial part, by this corporate business purpose.

(4h) There is no plan or intention by NewParent to sell, exchange, transfer by gift, or otherwise dispose of any of its stock in, or securities of, either Distributing or Controlled after the transaction.

(4i) 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 transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30.

(4j) 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 transaction, except in the ordinary course of business.

(4k) The total adjusted basis and fair market value of the assets transferred to Controlled by Distributing each equals or exceeds the sum of the liabilities assumed (within the meaning of § 357(d)) by Controlled.

(4l) Any liabilities assumed (within the meaning of § 357(d)) in the transaction were incurred in the ordinary course of business and are associated with the assets being transferred.

(4m) No intercorporate debt will exist between Distributing and Controlled at the time of, or after, the Distribution, except for intercompany receivables and payables arising in the ordinary course of business.

(4n) Immediately before the Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see §§ 1.1502-13 and 1.1502-14 as in effect before the publication of T.D. 8597, and as currently in effect; § 1.1502-13 as published by T.D. 8597). Further, any excess loss account Distributing may have in the Controlled stock will be included in income immediately before the Distribution to the extent required by applicable regulations (see § 1.1502-19).

(4o) Payments made in any continuing transactions between Distributing or any of its direct or indirect subsidiaries, on the one hand, and Controlled or any of its direct or indirect subsidiaries, on the other hand, will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(4p) No two parties to the transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(4q) For purposes of § 355(d), immediately after the Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing stock, that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Distribution.

(4r) For purposes of § 355(d), immediately after the Distribution, no person (determined after applying § 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled stock, that was either (i) acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Distribution, or (ii) attributable to distributions on Distributing stock that was acquired by purchase (as defined in § 355(d)(5) and (8)) during the five-year period (determined after applying § 355(d)(6)) ending on the date of the Distribution.

(4s) The Distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7T) 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 Distributing or Controlled or stock possessing 50 percent or more of the total value of all classes of stock of such corporations.

## **Rulings**

### Holding Company Transaction

Based solely on the information submitted and the representations set forth above, we rule as follows on the Holding Company Transaction described above in steps (i) through (iii):

(1) The formation of MergeCo and its merger with and into Distributing will be disregarded for federal income tax purposes, and the transaction will instead be treated as if the Distributing shareholders had transferred all of the Distributing common stock to NewParent in exchange solely for all of the outstanding NewParent common stock (see Rev. Rul. 67-448, 1967-2 C.B. 144).

(2) The shareholders of Distributing will recognize no gain or loss on the transfer of their Distributing stock to NewParent in exchange for NewParent stock (§ 351(a)).

(3) The basis of the NewParent stock received by each Distributing shareholder will equal the basis of the Distributing stock transferred to NewParent in exchange therefor (§ 358(a)(1)).

(4) The holding period for the NewParent stock received by each Distributing shareholder will include the period during which the shareholder held the Distributing stock transferred in exchange therefor, provided the Distributing stock is held as a capital asset on the date of the transfer (§ 1223(1)).

(5) NewParent will recognize no gain or loss on its receipt of Distributing stock from the Distributing shareholders in exchange for NewParent stock (§ 1032(a)).

(6) The basis of the Distributing stock received by NewParent will equal Distributing's net asset basis within the meaning of § 1.1502-31(c) (§§ 1.358-6(c)(2)(i)(A) and 1.1502-31(b)(2)).

(7) The holding period for the Distributing stock received by NewParent will include the period during which the stock was held by the Distributing shareholders (§ 1223(2)).

(8) The consolidated group of which Distributing is the common parent immediately before the Holding Company Transaction will continue in existence for consolidated return purposes, with NewParent becoming the common parent of the consolidated group after the Holding Company Transaction (§ 1.1502-75(d)).

(9) The earnings and profits of NewParent will be adjusted immediately after NewParent becomes the new common parent of Distributing's consolidated group to reflect the earnings and profits of Distributing immediately before Distributing ceases to be the common parent (§ 1.1502-33(f)(1)).

#### First Country A Contribution and Distribution

Based solely on the information submitted and the representations set forth above, we rule as follows on the First Country A Contribution and the First Country A Distribution described above in steps (viii)(a) through (f):

(10) For U.S. tax purposes, the transactions described above in steps (viii)(a) through (f) will be disregarded and treated instead as if (i) Country A Distributing 1 had formed Country A Controlled 1, (ii) Country A Distributing 1 had transferred the Business C assets to Country A Controlled 1 in exchange for Country A Controlled 1 common stock (again, the First Country A Contribution), and (iii) Country A Distributing 1 had distributed all the stock of Country A Controlled 1 to Country A

Distributing 2 (again, the First Country A Distribution) (see Rev. Rul. 83-142, 1983-2 C.B. 68; Rev. Rul. 77-191, 1977-1 C.B. 94; Rev. Rul. 57-311, 1957-2 C.B. 243).

(11) The First Country A Contribution, followed by the First Country A Distribution, will be a reorganization under § 368(a)(1)(D). Country A Distributing 1 and Country A Controlled 1 each will be a “party to a reorganization” under § 368(b).

(12) No gain or loss will be recognized by Country A Distributing 1 on the First Country A Contribution (§§ 361(a) and 357(a)).

(13) No gain or loss will be recognized by Country A Controlled 1 on the First Country A Contribution (§ 1032(a)).

(14) The basis Country A Controlled 1 has in each Business C asset received in the First Country A Contribution will equal the basis of that asset in the hands of Country A Distributing 1 immediately before its transfer (§ 362(b)).

(15) The holding period Country A Controlled 1 has in each Business C asset received in the First Country A Contribution will include the period during which that asset was held by Country A Distributing 1 (§ 1223(2)).

(16) No gain or loss will be recognized by Country A Distributing 1 on the First Country A Distribution (§§ 361(c), 355(d), and 355(e)).

(17) No gain or loss will be recognized by (and no income will otherwise be included in the income of) Country A Distributing 2 on the First Country A Distribution (§ 355(a)(1); Rev. Rul. 2003-75, 2003-29 I.R.B. 79 (distribution justified by competition between affiliated businesses for limited capital); Rev. Rul. 2003-74, 2003-29 C.B. 77 (distribution justified by competition between affiliated businesses for limited management time)).

(18) The holding period of the Country A Controlled 1 stock received by Country A Distributing 2 in the First Country A Distribution will include the holding period of the Country A Distributing 1 stock on which the First Country A Distribution is made, provided the stock is held as a capital asset on the date of the distribution (§ 1223(1)).

(19) The transfer of Business C assets by Country A Distributing 1 to Country A Controlled 1 will be an exchange to which §§ 1.367(b)-1(c) and 1.367(b)-4(a) apply.

(20) No amount will be included in income as a deemed dividend equal to the § 1248 amount under § 367(b) on the transfer of Business C assets by Country A Distributing 1 to Country A Controlled 1 in the First Country A Contribution (§§ 1.367(b)-1(b) and -4(b)).

(21) The transfer of the Country A Controlled 1 stock by Country A Distributing 1 in the First Country A Distribution will be a distribution to which §§ 1.367(b)-1(c), 1.367(b)-5(a), 1.367(b)-5(c) , and 1.367(b)-5(f) apply. If Country A Distributing 2's postdistribution amount (as defined in § 1.367(b)-5(e)(2)) with respect to Country A Distributing 1 or Country A Controlled 1 is less than Country A Distributing 2's predistribution amount (as defined in § 1.367(b)-5(e)(1)) with respect to Country A Distributing 1 or Country A Controlled 1, Country A Distributing 2's basis in such stock immediately after the distribution must be reduced by the amount of the difference. However, Country A Distributing 2's basis in such stock must not be reduced below zero, and to the extent the foregoing reduction would reduce basis below zero, Country A Distributing 2 must instead include such amount in income as a deemed dividend from such corporation. If Country A Distributing 2 reduces the basis in the stock of Country A Distributing 1 or Country A Controlled 1 (or has an inclusion with respect to such stock), Country A Distributing 2 must increase its basis in the stock of the other corporation to the extent provided in § 1.367(b)-5(c)(4).

(22) Country A Distributing 1 and Country A Controlled 1 will be treated as corporations for purposes of Country A Distributing 1's distribution of Country A Controlled 1 common stock to Country A Distributing 2.

#### Second Country A Distribution

Based solely on the information submitted and the representations set forth above, we rule as follows on the Second Country A Contribution and the Second Country A Distribution described above in steps (viii)(g) and (h):

(23) The Second Country A Contribution, followed by the Second Country A Distribution, will be a reorganization under § 368(a)(1)(D). Country A Distributing 2 and Country A Controlled 2 each will be a "party to a reorganization" under § 368(b).

(24) No gain or loss will be recognized by Country A Distributing 2 on the Second Country A Contribution (§§ 361(a) and 357(a)).

(25) No gain or loss will be recognized by Country A Controlled 2 on the Second Country A Contribution (§ 1032(a)).

(26) The basis Country A Controlled 2 has in each asset received in the Second Country A Contribution will equal the basis of that asset in the hands of Country A Distributing 2 immediately before its transfer (§ 362(b)).

(27) The holding period Country A Controlled 2 has in each asset received in the Second Country A Contribution will include the period during which that asset was held by Country A Distributing 2 (§ 1223(2)).

(28) No gain or loss will be recognized by Country A Distributing 2 on the second Country A Distribution (§§ 361(c), 355(d), and 355(e)).

(29) No gain or loss will be recognized by (and no income will otherwise be included in the income of) Distributing on the Second Country A Distribution (§ 355(a)(1); Rev. Rul. 2003-75, *supra* (distribution justified by competition between affiliated businesses for limited capital); Rev. Rul. 2003-74, *supra* (distribution justified by competition between affiliated businesses for limited management time)).

(30) The holding period of the Country A Controlled 2 stock received by Distributing in the Second Country A Distribution will include the holding period of the Country A Distributing 2 stock on which the Second Country A Distribution is made, provided the stock is held as a capital asset on the date of the distribution (§ 1223(1)).

(31) Earnings and profits will be allocated in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

#### Contribution and Distribution

Based solely on the information submitted and the representations set forth above, we rule as follows on the Contribution and Distribution described above in steps (v), (vi)(e), (vii)(b), (viii)(i), and (ix):

(32) The Contribution, followed by the Distribution, will be a reorganization under § 368(a)(1)(D). Distributing and Controlled each will be a “party to a reorganization” under § 368(b).

(33) No gain or loss will be recognized by Distributing on the Contribution (§§ 361(a) and 357(a)).

(34) No gain or loss will be recognized by Controlled on the Contribution (§ 1032(a)).

(35) The basis Controlled has in each asset received in the Contribution will equal the basis of that asset in the hands of Distributing immediately before its transfer (§ 362(b)).

(36) The holding period Controlled has in each asset received in the Contribution will include the period during which that asset was held by Distributing (§ 1223(2)).

(37) No gain or loss will be recognized by Distributing on the Distribution (§§ 361(c), 355(d), and 355(e)).

(38) No gain or loss will be recognized by (and no income will otherwise be included in the income of) NewParent on the Distribution (§ 355(a)(1); Rev. Rul. 2003-75, *supra* (distribution justified by competition between affiliated businesses for limited capital); Rev. Rul. 2003-74, *supra* (distribution justified by competition between affiliated businesses for limited management time)).

(39) The holding period of the Controlled stock received by NewParent in the Distribution will include the holding period of the Distributing stock on which the Distribution is made, provided the stock is held as a capital asset on the date of the distribution (§ 1223(1)).

(40) Earnings and profits will be allocated in accordance with §§ 312(h), 1.312-10(a), and 1.1502-33(f)(2).

### **Caveats**

No opinion is expressed about the federal tax treatment of the Proposed Transactions under any other provision of the Code or Regulations, or the tax treatment of any condition existing at the time of, or effect resulting from, the Proposed Transactions that are not specifically covered by the above rulings. In particular, no opinion is expressed regarding whether any or all of the above-referenced foreign corporations are passive foreign investment companies (within the meaning of § 1297(a) and the regulations to be promulgated thereunder). If it is determined that any or all of the above-described foreign corporations are passive foreign investment companies, no opinion is expressed regarding the application of §§ 1291 through 1298 to the Proposed Transactions. In particular, in a transaction in which gain is not otherwise recognized, regulations under § 1291(f) may require gain recognition notwithstanding any other provision of the Code. In addition, no opinion is expressed regarding the Federal income tax consequences of the Sub 2 Liquidation described above in step (vi)(b).

### **Procedural Statements**

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

A copy of this letter must be attached to the federal income tax return of each taxpayer involved for the taxable year in which the Proposed Transactions are completed.



In accordance with the Power of Attorney on file in this office, a copy of this letter is being sent to the taxpayer and to a second taxpayer representative.

Sincerely yours,  
Associate Chief Counsel (Corporate)

*Wayne T. Murray*

By: \_\_\_\_\_  
Wayne T. Murray  
Special Counsel  
Office of Associate Chief Counsel  
(Corporate)