Internal Revenue Service

Number: **200731002**
Release Date: 8/3/2007

Index Number: 368.06-00, 362.01-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:CORP:06
PLR-100866-07

Date:
May 01, 2007

Legend

Foreign Parent	=	
Foreign Sub	=	
US Parent	=	
Foreign Bank	=	
Year 1	=	
Year 2	=	
Year 3	=	
Year 4	=	
X	=	
State	=	
Foreign	=	
Shareholder	=	

Dear :

This letter responds to a letter dated December 18, 2006, on behalf of Foreign Sub, requesting certain rulings including under section 368(a)(1)(F) of the Internal Revenue Code with respect to a completed transaction. Additional information was submitted in letters dated February 8, February 15, and March 15, 2007.

Summary of Facts

Foreign Parent is a privately owned Foreign public limited company that is treated as a corporation for US tax purposes. Shareholder owns the majority of the outstanding shares of Foreign Parent stock.

In Year 1, Foreign Parent formed Foreign Sub, a Foreign private limited company that is treated as a corporation for US tax purposes. Foreign Sub was formed with minimal capital and remained a dormant shell company until the transactions described below.

In Year 2, Foreign Sub formed US Parent, a State single member limited liability company and a disregarded entity for US tax purposes (at times referred to below as US Parent D/E). Foreign Sub is a holding company; its sole asset is, and always has been, its interest in US Parent. Shortly after its formation, US Parent acquired five shelf companies, also single member limited liability companies organized in State. US Parent and the five shelf companies comprise the US Entities. Foreign Parent formed US Parent and acquired the other US Entities in order to purchase the assets of a US business (the US assets) and operate a US business with those assets.

To fund the acquisition, Foreign Sub borrowed $50x from Foreign Bank, an unrelated party (the FS Loan). Foreign Parent guaranteed the FS Loan. Foreign Sub contributed $48x of the FS Loan proceeds to US Parent and retained $2x to cover its transaction expenses. US Parent then used $45x to purchase the US assets and retained $3x for working capital. US Parent retained some of the US assets and contributed some to each of the five SMLLCs.

All of the assets of the US Entities generated income exclusively in the US. Accordingly, Foreign Sub reported the US taxable income of the US Entities each year that it owned and operated the US assets.

Initially, the interest on the FS Loan was deductible for purposes of both Foreign and US tax. However, in Year 3, Foreign law changed and, as a result, the interest on the FS Loan was no longer deductible for Foreign purposes if it was claimed on a US return. Foreign Parent determined that the deduction would be more valuable to the group for Foreign tax purposes and, thus, to ensure the deduction would be allowable for Foreign tax purposes, Foreign Parent caused the following (the CTB Transaction) to occur.

First, pursuant to § 301.7701-3(g), Foreign Sub elected to change its classification from that of an association taxable as a corporation to that of an entity disregarded as separate from its owner (a "disregarded entity") for US tax purposes.

Second, within a week following Foreign Sub's election (but effective on the same day) and also pursuant to § 301.7701-3(g), US Parent D/E elected to change its classification from disregarded entity to an association taxable as a corporation for US tax purposes (at times referred to below as US Parent Inc.).

At the time of the CTB Transaction, the balance of the FS Loan was approximately $24x and US Parent D/E's basis in its assets exceeded the fair market value of those assets. US Parent Inc. did not assume the FS Loan.

Following the CTB Transaction, neither Foreign Parent nor Foreign Sub were subject to US tax or otherwise required to file a US income tax return. As a result, the interest on the FS Loan was no longer deducted on any return other than a Foreign return.

Representations

In connection with the CTB Transaction, the taxpayer has made the following representations:

1. The fair market value of the stock of US Parent deemed received by Foreign Parent was approximately equal to the fair market value of the Foreign Sub stock deemed surrendered in the exchange, reduced by the FS Loan and any other Foreign Sub liabilities deemed assumed by Foreign Parent.

2. Immediately after the CTB Transaction, Foreign Parent (through Foreign Sub, then a disregarded entity) owned all the outstanding shares of stock of US Parent and owned stock solely by reason of its ownership of Foreign Sub stock immediately prior to the CTB Transaction.

3. At the time of the CTB Transaction, US Parent did not have, nor does it currently have, any plan or intention to issue additional shares of its stock following the CTB Transaction.

4. Immediately following the CTB Transaction, US Parent held the same assets and liabilities, other than the FS Loan, that Foreign Sub held immediately prior to the CTB Transaction.

5. At the time of the CTB Transaction, Foreign Sub had no outstanding warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in US Parent.

6. At the time of the CTB Transaction, US Parent did not have, and it does not currently have, any plan or intention to reacquire any of its stock issued in the CTB Transaction.

7. The liabilities of Foreign Sub assumed (within the meaning of section 357(d)) by US Parent plus the liabilities, if any, to which the transferred assets were subject, were incurred by Foreign Sub in the ordinary course of its business and were associated with the assets transferred.

8. Foreign Parent paid its own expenses, if any, incurred in connection with the CTB Transaction.

9. Foreign Sub was not at the time of the CTB Transaction under the jurisdiction of a court in a title 11 or similar case within the meaning of section 368(a)(3)(A).

10. Neither Foreign Sub nor US Parent filed an election to change its initial or default classification for US federal tax purposes within the 60-month period ending on December 31, Year 3.

11. All of Foreign Sub's earnings and profits were effectively connected earnings and profits (as defined in section 884(d)) or accumulated effectively connected earnings and profits (as defined in section 884(b)(2)(B)(ii)) prior to the CTB Transaction.

Rulings

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

1. The CTB Transaction is an F reorganization of Foreign Sub into US Parent. Foreign Sub and US Parent are each "a party to a reorganization" under section 368(b).

2. No gain or loss was recognized by Foreign Parent upon its deemed exchange of the shares of Foreign Sub stock for shares of US Parent. Section 354(a).

3. No gain or loss was recognized by Foreign Sub upon the deemed transfer of assets to US Parent in the CTB Transaction. Section 361(a).

4. No gain or loss was recognized by US Parent upon its deemed receipt of Foreign Sub's assets and liabilities (other than the FS Loan) in the CTB Transaction. Section 1032(a).

5. The basis of each asset held by US Parent immediately after the CTB Transaction was the same as the basis of that asset in the hands of Foreign Sub immediately before the CTB Transaction. Section 362(b).

6. Immediately after the CTB Transaction, the basis of the US Parent common stock deemed received by Foreign Parent was the same as its basis, immediately before the CTB Transaction, in the Foreign Sub stock for which they will be deemed exchanged. Section 358(a).

7. Provided the Foreign Sub shares were held as a capital asset at the time of the CTB Transaction, the holding period of the US Parent common stock received in exchange therefor includes the holding period of the Foreign Sub's shares. Section 1223(1).

8. The taxable year of Foreign Sub closed on the effective date of the CTB Transaction and the taxable year of US Parent ended with the close of the date on which Foreign Sub's taxable year would have ended but for the CTB Transaction. § 1.367(b)-2(f)(4).

9. US Parent succeeded to and takes into account the tax attributes of Foreign Sub described in section 381(c). Section 381(a), § 1.381(a)-1. These items are taken into account by US Parent subject to the conditions and limitations specified in sections 381, 382, 383 and 384 of the Code and the Regulations hereunder.

Caveats

We express no opinion about the tax treatment of the CTB Transaction 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 CTB Transaction that is not specifically covered by the above rulings. Specifically, no opinion is expressed as to the Federal income tax treatment of the CTB Transaction under §§ 897 or 884.

The rulings contained in this letter are based upon 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 and such material is subject to verification on examination.

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.

A copy of this letter must be attached to any income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to the taxpayer's representatives.

Sincerely,

Theresa A. Abell
Special Counsel
Office of Associate Chief Counsel
(Corporate)