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Department of the Treasury
Washington, DC 20224

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LEGEND

Taxpayer

HoldCo1 =

HoldCo2 =

Sub1 =

Sub2 =

Sub3 =

Sub4 =

Parent1 =

Parent2 =

Parent3

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Year 5 =

Year 6 =

Year 7 =

Year 8 =

Year 9 =

Year 10 =

Year 11 =

Date 1 =

Date 2 =

Date 3 =

Business =

Dear

This letter responds to your April 1, 2011 request for rulings on certain federal income tax consequences of a consummated transaction. The information provided in that request and in later correspondence is summarized below.

SUMMARY OF FACTS

Taxpayer is the common parent of an affiliated group of corporations filing a consolidated return (Taxpayer Group). Taxpayer requests rulings regarding the application of § 165(g)(3) with respect to the Date 3 liquidation of HoldCo2. On Date 3, Taxpayer owned 100% of HoldCo1. HoldCo1 owned 100% of HoldCo2, and HoldCo2 owned 100% of Sub1. Taxpayer, HoldCo1, HoldCo2 and Sub1 were included in Taxpayer Group's consolidated return beginning in Year 10.

HoldCo2 was incorporated in Year 1 as a holding company to own the stock of Sub1 and Sub2. During most of HoldCo2's corporate existence, it owned all or substantially all of the outstanding equity of Sub1, Sub2, and Sub3. HoldCo2 served primarily as a holding company for these subsidiaries, which were operating companies engaged in Business.

In Year 2, HoldCo2 formed Sub2 as a wholly owned subsidiary. In the same year, all of the outstanding stock of Sub1 was contributed to HoldCo2 in exchange for additional HoldCo2 stock. Beginning with Year 2 tax year, HoldCo2 filed a consolidated return as the common parent with its subsidiaries Sub1, Sub2 and Sub4.

In Year 4, HoldCo2 and its subsidiaries became members of the Parent1 Group as the result of a reverse subsidiary cash merger treated as a taxable stock purchase. Subsequently, Parent1 changed its name in Year 5 to Parent2 and in Year 7 became a member, along with its subsidiaries (including HoldCo2 and Sub1), of the group of which Parent3 was the common parent. During Year 9, Parent2 changed its name to Holdco1, and all of the stock of Holdco1 was contributed to Taxpayer. On Date 1, the stock of Taxpayer was distributed out of the Parent3 Group. As noted above, Taxpayer owned 100% of the stock of HoldCo1 (formerly Parent2), which owned 100% of the stock of HoldCo2, which owned 100% of the Sub1 stock. Taxpayer Group, consisting of Taxpayer, HoldCo1, HoldCo2, Sub1, and other domestic subsidiaries, elected to file a consolidated return beginning with Year 10.

During its existence, HoldCo2 entered into four types of intercompany transactions with other members of the various consolidated groups of which it was a member:

1. Beginning in Year 3, Sub1 and Sub2 distributed cash dividends to HoldCo2. One Year 3 Sub1 dividend consisted of a distribution of property and workforce to HoldCo2.

2. Some or all Sub1 distributions to HoldCo2 during Year 8 and Year 9 were in excess of Sub1's current and accumulated E&P.

3. From Year 3 to Year 6, HoldCo2 provided management services to Sub1, Sub2 and Sub3 for a management fee.

4. During Year 3, Sub1 sold certain furniture and fixtures to HoldCo2.

TRANSACTION

Because Sub1's last significant asset was rendered worthless in Year 11 and Sub1 could not economically service its remaining clients, both HoldCo2 and Sub1 legally dissolved on Date 3.

REPRESENTATIONS

(a) HoldCo2 and Sub1 were each solvent, retaining net value in the shares of each entity as of Date 2.

(b) Sub1 was insolvent (as described in Rev. Rul. 2003-125, 2003-2 C.B. 1243) for federal income tax purposes at the time of the dissolution of Sub1.

(c) The HoldCo2 shares owned by HoldCo1 were cancelled for no consideration as a result of the dissolution of HoldCo2.

(d) The stock of each of HoldCo2 and Sub1 was worthless within the meaning of § 165(g)(1) as of the date of dissolution. HoldCo1 owned directly HoldCo2 stock possessing 100% of the total voting power and 100% of the total value of the HoldCo2 stock, and met the requirements of § 1504(a)(2).

(e) HoldCo1 did not own any of the shares of HoldCo2 stock with an excess loss account.

(f) During each tax period in which HoldCo2 received an amount of gross receipts in an intercompany transaction described in § 1.1502-13 (as effective/applicable on or after July 12, 1995), the total gross receipts of the intercompany transaction counterparty for such tax period was greater than the sum of the amount of all such member's intercompany transactions in which it was the paying member.

(g) HoldCo1 will claim a worthless stock loss with respect to the stock of HoldCo2 only to the extent permitted by § 1.1502-36.

(h) Taking into account the application of § 1.1502-36, and elections to be made thereunder, HoldCo2 did not realize any loss with respect to the stock of Sub1.

RULINGS

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

(1) Provided that the requirements of § 165(g) (taking into account the provisions of § 1.1502-80(c)) are satisfied, HoldCo1 may claim a worthless stock deduction under § 165(g)(3) upon the dissolution of HoldCo2, subject to the application of § 1.1502-36.

(2) For purposes of the § 165(g)(3)(B) "gross receipts" test, HoldCo2 will include in its aggregate gross receipts all amounts of gross receipts received in intercompany transactions that are described in § 1.1502-13 (as effective/applicable on or after July 12, 1995) ("Intercompany Transactions"), and such amounts from Intercompany Transactions will be treated as "gross receipts from passive sources" to the extent they are attributable to the Intercompany Transactions' counterparty's "gross receipts from passive sources" ("Look-Through Approach"). See § 1.1502-13(a), (b) and (c) (as effective/applicable on or after July 12, 1995). For purposes of these rulings, "gross receipts from passive sources" is defined as royalties, certain rents, dividends, certain interest, annuities, and gains from sales of stock and securities as defined in § 165(g)(3) and the regulations thereunder.

(3) For purposes of computing HoldCo2's "gross receipts" under § 165(g)(3)(B), HoldCo2 will take into account the historic gross receipts of any transferor corporation in a transaction to which § 381(a) applied, provided, however, that HoldCo2 will eliminate gross receipts from Intercompany Transactions with any such transferor corporation, as appropriate, to prevent duplication.

(4) In applying the Look-Through Approach, for purposes of computing the "gross receipts from passive sources" of HoldCo2's counterparty in an Intercompany Transaction or any other counterparties in Intercompany Transactions, the counterparty will include in its aggregate gross receipts all amounts of gross receipts it received in Intercompany Transactions, and such amounts from Intercompany Transactions will be treated as "gross receipts from passive sources" to the extent they are attributable to its counterparty's "gross receipts from passive sources." In other words, HoldCo2's "gross receipts from passive sources" is determined by looking at all of HoldCo2's gross receipts from Intercompany Transactions (even if on its face the Intercompany Transaction appears not to be "gross receipts from passive sources") and sourcing the gross receipts based on HoldCo2's counterparty's "gross receipts from passive

sources." Furthermore, HoldCo2's counterparty in Intercompany Transactions (and HoldCo2's counterparty's counterparty, and so on until it reaches an ultimate counterparty) will apply a similar rule.

(5) In applying the Look-Through Approach with respect to gross receipts from intercompany dividends (that is, intercompany distributions to which § 301(c)(1) applies), the amounts will be attributed pro rata to the gross receipts that gave rise to the E&P from which the dividend was distributed.

(6) In applying the Look-Through Approach with respect to gross receipts from Intercompany Transactions other than § 301(c)(1) distributions, provided the intercompany transaction counterparty's gross receipts for the tax period are greater than the counterparty's intercompany transaction payments, the amounts will be attributed pro rata to the gross receipts of the intercompany transaction counterparty for the taxable year during which the intercompany transaction occurs (adjusted as appropriate for other intercompany transactions during such period to prevent any duplication).

CAVEATS

The rulings contained in this letter are based upon 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 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.

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. Specifically, we express or imply no opinion whether Taxpayer otherwise meets the requirements of § 165.

PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) 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. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel (Corporate)