Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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CC:CORP:BO3
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Date:
July 23, 2013

Parent =

Sub 1 =

Sub 2 =

FSub 1 =

FSub2 =

DRE 1 =

DRE 2 =

Foreign Parent =

Foreign Holdings =

Foreign Acquiring =

State A =

State B =

Country C =

x =

y =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Dear :

We respond to your representative's letter dated January 18, 2013, requesting rulings under section 1.1502-13(c)(6)(ii)(D) of the Income Tax Regulations. The information submitted in that letter and in subsequent correspondence is summarized below.

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. While this office has not verified any of the materials submitted in support of the request for rulings, it is subject to verification on examination.

Facts

In Year 1, Sub 1, a State A corporation, was the common parent of a consolidated group (the Sub 1 Group) and owned all of the stock of Sub 2, a State B corporation that is also a member of the Sub 1 Group. Sub 2 owned the stock of DRE 2, a Country C company that was treated as a corporation prior to its election to be treated as a disregarded entity, explained below. Sub 2 distributed the stock of DRE 2 to Sub 1 at a

gain (the Intercompany Gain) under section 311(b) of the Internal Revenue Code and section 1.1502-13(f)(2) of the Income Tax Regulations with respect to that stock but did not take it into account by operation of section 1.1502-13(c).

In Year 2, Foreign Acquiring acquired all of the stock of Sub 1. At the time of such acquisition, Foreign Acquiring was a wholly owned subsidiary of Foreign Holdings, which was a wholly owned subsidiary of Foreign Parent. The Sub 1 Group did not terminate at the time of the acquisition because Sub 1 remained the parent of the Sub 1 Group. Shortly thereafter, Sub 1 formed FSub 1, a Country C company, and contributed all of the stock of DRE 2 to FSub 1 in exchange for FSub 1 stock, and DRE 2 elected to be treated as a disregarded entity (the Reorganization).

In Year 3, FSub 1 contributed its interest in DRE 2 and Foreign Acquiring contributed property to a newly formed Country C company that elected to be treated as a partnership for U.S. federal income tax purposes (the Partnership Formation). The Sub 1 Group determined at that time that neither the Reorganization nor the Partnership Formation caused Sub 1 to take into account the Intercompany Gain.

Parent, a State A corporation, is the common parent of a consolidated group (the Parent Group). All members of the consolidated group use the accrual method of accounting. In Year 4, Parent, through its wholly owned disregarded entity DRE 1, a Country C company, acquired all of the stock of Foreign Parent in a qualified stock purchase within the meaning of section 338(d)(3). Parent made elections under section 338(g) for Foreign Parent, Foreign Holdings, and Foreign Acquiring. Foreign Parent, Foreign Holdings, and Foreign Acquiring each elected to be treated as a disregarded entity for U.S. federal income tax purposes. As a result, Foreign Acquiring was deemed to have distributed all of its assets, which included the stock of Sub 1, to Parent; consequently, the Sub 1 Group terminated and all members of the Sub 1 Group became members of the Parent Group. The Parent Group determined that the termination of the Sub 1 Group is described in section 1.1502-13(j)(5)(i)(A) and that Sub 2 did not take any of its intercompany items, including the Intercompany Gain, into account pursuant to section 1.1502-13(j)(5)(ii). After Parent's acquisition, FSub 1 formed FSub 2 and transferred its interest in Partnership to FSub 2. At the same time, Foreign Acquiring sold its interest in Partnership to FSub 2, terminating the Partnership. Following the termination of Partnership, FSub 2 wholly owned DRE 2.

To date, Sub 2's Intercompany Gain has not been taken into account under the rules of section 1.1502-13.

Proposed Transactions

(i) FSub 2 will sell all of its interest in DRE 2 to an unrelated third party buyer (the DRE 2 Sale). In connection with the DRE 2 Sale, FSub 2 will direct the buyer to transfer the sales proceeds directly to Parent, and Parent and

FSub 2 will enter into an intercompany loan arrangement, recording Parent's obligation to repay such amount to FSub 2 (the Loan).

(ii) Within x business days of the DRE 2 Sale, Sub 2 either (i) will convert to a single member limited liability company or will merge into a single member limited liability company owned by Sub 1 and will thereafter be treated as disregarded as an entity separate from Sub 1 for U.S. federal income tax purposes pursuant to section 301.7701-3(b)(1)(ii) or (ii) will merge with and into Sub 1 with Sub 1 surviving (the Sub 2 Liquidation).

(iii) Subsequently, each of FSub 1 and FSub 2 will elect to be treated, pursuant to section 301.7701-3(c), as disregarded as an entity separate from its sole owner for U.S. federal income tax purposes effective y business days after the Sub 2 liquidation (the FSub 1 check the box (CTB) Liquidation and the FSub 2 check the box (CTB) Liquidation, respectively).

Representations

Parent has made the following representations with respect to the Proposed Transactions:

(a) The Reorganization qualified as a reorganization described in section 368(a)(1)(F).

(b) The FSub 1 shares owned by Sub 1 constitute successor assets, within the meaning of section 1.1502-13(j)(1), to the DRE 2 shares previously distributed by Sub 2 to Sub 1 and subsequently transferred by Sub 1 to FSub 1.

(c) The Sub 2 Liquidation will qualify as a complete liquidation to which sections 332 and 337(a) apply.

(d) Sub 1 will constitute a successor person (within the meaning of section 1.1502-13(j)(2)) with respect to Sub 2, and Sub 1 will succeed to, and take into account under section 1.1502-13, the Intercompany Gain.

(e) The FSub 2 CTB Liquidation will qualify as a complete liquidation to which sections 332 and 337(a) apply.

(f) The FSub 1 CTB Liquidation will qualify as a complete liquidation to which sections 332 and 337(a) apply.

(g) The effects of the intercompany transaction between Sub 2 and Sub 1 with respect to which the Intercompany Gain was realized have not previously been

reflected on the Parent Group's consolidated return or the consolidated return of any other consolidated group of which Sub 1 and Sub 2 were members.

(h) Neither the Parent Group nor any other consolidated group of which Sub 1 and Sub 2 were members has derived, and no taxpayer will derive, any U.S. federal income tax benefit from the intercompany transaction between Sub 2 and Sub 1 that gave rise to the Intercompany Gain or the redetermination of the Intercompany Gain (including any adjustment to basis in member stock under section 1.1502-32).

(i) Parent and FSub 2 will treat the Loan as debt for U.S. federal income tax purposes.

(j) Each of FSub 1 and FSub 2 is eligible to elect to be treated as a disregarded entity for U.S. federal tax purposes under section 301.7701-3 and will file a valid election to be treated as a disregarded entity in connection with its check the box liquidation.

(k) Sub 1 will include in income as a deemed dividend the all earnings and profits amount, if any, with respect to the stock of FSub 1, as required by section 1.367(b)-3(b)(3), in connection with the check the box liquidation of FSub 1.

(l) The notice requirements of section 1.367(b)-1(c) will be satisfied in connection with the check the box liquidation of FSub 1.

Rulings

Based solely on the information submitted and the representations made, we rule as follows on the Proposed Transactions:

(1) The FSub 1 CTB Liquidation will require Sub 1 to take into account the Intercompany Gain under the matching rule of section 1.1502-13(c).

(2) The Intercompany Gain will be redetermined to be excluded from gross income under section 1.1502-13(c)(6)(ii)(D). Accordingly, the Intercompany Gain will be excluded from Sub 1's gross income for the Parent Group's consolidated return year that includes the day of the FSub 1 CTB Liquidation.

(3) The amount of Sub 1's Intercompany Gain that is redetermined to be excluded from gross income will not be taken into account as earnings and profits of any member and will not be treated as tax-exempt income under section 1.1502-32.

Caveats

No opinion is requested and no opinion is expressed whether: (i) the Reorganization qualified as a reorganization described in section 368(a)(1)(F), (ii) the FSub 1 shares owned by Sub 1 constitute successor assets, within the meaning of section 1.1502-13(j)(1), to the stock of DRE 2 distributed by Sub 2 to Sub 1 and subsequently transferred by Sub 1 to FSub 1, (iii) whether Sub 1 is a successor person, within the meaning of section 1.1502-13(j)(2), to Sub 2, or (iv) whether the Sub 2 Liquidation, the FSub 1 CTB Liquidation, or the FSub 2 CTB Liquidation each will qualify as a liquidation under sections 332 and 337. Additionally, no opinion is expressed concerning the tax treatment of the transactions occurring in Years 1, 2, 3, and 4 prior to the Proposed Transactions or the Proposed Transactions themselves under other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transactions that are not specifically covered by the above rulings.

Procedural Statements

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. 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.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Filiz A. Serbes
Branch Chief, Branch 3
Office of Associate Chief Counsel (Corporate)

cc: