

**Internal Revenue Service**

Department of the Treasury  
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Person To Contact:  
, ID No.

Telephone Number:

Refer Reply To:  
CC:INTL:B03  
PLR-127964-16

Date:  
September 26, 2016

TY:

Legend

CORP X =

CORP Y =

DATE 1 =

Dear :

This is in response to your representative’s letter dated September 7, 2016, requesting a ruling on behalf of CORP X’s consolidated group that the consolidated group members be permitted to value their assets on the basis of the tax book value method of asset valuation for purposes of apportioning interest expense, pursuant to Treas. Reg. §§ 1.861-8T(c)(2) and 1.861-9T(g), for the consolidated group’s taxable year and future years.

The ruling contained in this letter is based upon information and representations submitted by CORP X 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 rulings, it is subject to verification on examination.

CORP X, a domestic corporation, is a calendar year taxpayer that uses the accrual method as its overall method of accounting. CORP X is the common parent of a group of affiliated corporations that files a consolidated U.S. federal income tax return. The CORP X consolidated group utilized the tax book value method of asset valuation for several taxable years prior to taxable year .

On DATE 1, a date in calendar year 2015, CORP X completed the acquisition of CORP Y, the common parent of a U.S. consolidated group of corporations. For several years

prior to DATE 1, the CORP Y consolidated group utilized the fair market value method of asset valuation. As a result of the acquisition, the CORP Y consolidated group members became members of the CORP X consolidated group and will be included in CORP X's consolidated federal income tax returns starting from the day after DATE 1.

Section 864(e) provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income. Treas. Reg. §§ 1.861-8 through 1.861-12 and Temp. Treas. Reg. §§ 1.861-8T through 1.861-13T set forth the rules specific to the allocation and 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 tax book value 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.

Based solely on the information submitted and the representations made, pursuant to Treas. Reg. § 1.861-8(f)(2) and Temp. Treas. Reg. §§ 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), the Corp X consolidated group members may value their assets on the basis of the tax book value method of asset valuation for purposes of apportioning interest expense for all operative sections, including sections 199 and 904 of the Code, for the consolidated group's taxable year and future years.

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 representatives.

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,

Richard L. Chewning  
Senior Counsel, Branch 3  
Office of Associate Chief Counsel (International)

cc: