

Internal Revenue Service

Department of the Treasury
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LEGEND

Taxpayer =
Parent 1 =
Parent 2 =
Year 1 =
Year 2 =
Year 3 =
Year 4 =
Year 5 =
Year 6 =
Services =
Clients =
US Sub 1 =
US Sub 2 =
US Sub 3 =

Foreign Sub 1 =

Foreign Sub 2 =

Investor =

\$A =

\$B =

Date 1 =

Date 2 =

Dear :

This is in response to a letter dated April 29, 2016, submitted on behalf of Taxpayer, requesting a letter ruling under § 165 of the Internal Revenue Code (the "Code"). The information submitted for consideration is summarized below.

FACTS

Taxpayer was incorporated in Year 1 and is a wholly owned subsidiary of Parent 1, a wholly owned subsidiary of Parent 2. In Year 2, Taxpayer acquired 100 percent of the issued and outstanding equity interest in US Sub 1, a State corporation. US Sub 1 and its wholly owned subsidiaries, US Sub 2, US Sub 3, Foreign Sub 1, and Foreign Sub 2, provide Services to Clients. Parent 1, Parent 2, Taxpayer, US Sub 1, US Sub 2, and US Sub 3 are all members of the Parent 2 consolidated group.

Prior to Year 3, certain Clients advised by US Sub 1 and its subsidiaries invested a large portion of their assets with Investor. In Year 4, the trustee appointed to liquidate Investor sued US Sub 1 and its subsidiaries for over \$A to recover payments made by Investor. In Year 5, US Sub 1 settled with the trustee for over \$B. Beginning in Year 6, Clients sued US Sub 1 and its subsidiaries to recover losses related to their investments with Investor.

On Date 1, Foreign Sub 1 was liquidated into US Sub 1. On Date 2, US Sub 2 and US Sub 3 converted from state law corporations to limited liability companies. Also on Date 2, Foreign Sub 2 made an election to be treated as a disregarded entity for U.S. federal tax purposes.

US Sub 1 proposes to convert from a state law corporation to a limited liability company resulting in a deemed distribution of all of US Sub 1's assets and liabilities to Taxpayer.

REPRESENTATIONS

1. The US Sub 2, US Sub 3, Foreign Sub 1, and Foreign Sub 2 transactions, i.e., liquidation, conversion, and election, qualified as liquidations under section 332 for U.S. federal income tax purposes and pursuant to section 381 the attributes carried over to US Sub 1.
2. Taxpayer owns directly more than 80 percent of the total voting power and 80 percent of the total value of US Sub 1 within the meaning of section 1504(a)(2).
3. The US Sub 1 conversion will occur at a time when US Sub 1 will be insolvent (as described in Rev. Rul. 2003-125, 2003-2 C.B. 1243) and its stock will be worthless, within the meaning of section 165(g)(1).
4. US Sub 1 has not made any distributions that caused it to become insolvent.

RULINGS

Based upon the information submitted and representations made by Taxpayer, we rule as follows:

1. For purposes of computing the "more than 90 percent gross receipts" test under section 165(g)(3)(B), US Sub 1 will take into account the historic gross receipts of US Sub 2, US Sub 3, Foreign Sub 1, and Foreign Sub 2 provided, however, that US Sub 1 eliminates prior distributions received from US Sub 2, US Sub 3, Foreign Sub 1, and Foreign Sub 2, so as to prevent duplication.
2. Assuming the requirements for claiming a worthless stock deduction under § 165(g)(3) are otherwise satisfied, Taxpayer may claim a worthless stock deduction for the US Sub 1 stock upon the occurrence of the US Sub 1 conversion.

CAVEATS

The rulings contained in this letter are based on facts 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 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.

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.

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 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,

Lewis K Brickates
Branch Chief, Branch 1
(Income Tax & Accounting)