

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Date:
May 30, 2017

LEGEND

Parent =

Distributing =

Controlled =

Acquiring =

State A =

Business A =

Business B =

Product =

Guarantee =

Month 1 =

Year 1 =

Dear :

This letter responds to your authorized representatives' letter dated September 26, 2016, which replaced a letter dated June 2, 2016, requesting rulings on certain federal income tax consequences of a proposed transaction described below (the "Proposed Transaction"). The information provided in that request 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 penalties 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.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2016-1, 2016-1 I.R.B. 1, regarding rulings on one or more significant issues under sections 332, 351, 355, 368, or 1036 of the Internal Revenue Code, and pursuant to section 3.02 of Rev. Proc. 2016-45, 2016-37 I.R.B. 344, on significant legal issues under section 355(a)(1)(B) and Treas. Reg. § 1.355-2(d) pertaining to device. The rulings contained in this letter only address one or more discrete legal issues involved in the Proposed Transaction. This Office expresses no opinion as to the overall tax consequences of the Proposed Transaction or as to any issue not specifically addressed by the rulings below.

FACTS

Parent is a State A entity that is exempt from federal income tax under section 501(c)(3). Parent is the parent entity to a group of corporations (collectively, the "Parent Group"). Parent owns all of the stock in Acquiring, a State A corporation. Parent also owns the sole membership interest in Distributing, a State A non-stock corporation.

Distributing is engaged in Business A and Business B. Distributing is an “existing Blue Cross or Blue Shield organization” within the meaning of section 833(c)(2).

In Month 1, Year 1, certain management and operational employees of Business B were transferred from Distributing to Acquiring (the “Employee Transfer”). Other management and operational employees of Business B remain employed by Distributing. Prior to the Employee Transfer, Business B was operated entirely by Distributing and had been providing Business B services to members of the Parent Group and to third-party customers.

PROPOSED TRANSACTION

The Proposed Transaction steps are as follows:

- (i) Distributing will form a new, wholly-owned State A corporation (“Controlled”) and contribute all of the assets (including Product) and the remaining employees of Business B to Controlled (the “Contribution”).
- (ii) Distributing will distribute all the stock of Controlled to Parent (the “Distribution”).
- (iii) Controlled will merge with and into Acquiring, with Acquiring surviving.

Following the Proposed Transaction, Distributing will own the Business A assets and Acquiring will own the Business B assets (including Product). For purposes of satisfying the active trade or business requirement of section 355(b), Distributing intends to rely on Business A, and Controlled intends to rely on Business B.

Following the Proposed Transaction, Distributing may provide a Guarantee to third-party customers of Business B if a third-party customer of Business B requests a Guarantee.

REPRESENTATIONS

The taxpayer has made the following representations with respect to the Proposed Transaction:

- a) Parent has no plan or intention to cease to be exempt from federal income tax under section 501(c)(3).
- b) Parent has no plan or intention to sell or to otherwise dispose of any portion of the stock of Distributing, Controlled, or Acquiring.

- c) If section 355 did not apply to the Distribution, the receipt of the stock of Controlled would not be taxable to Parent.

RULINGS

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

- (1) The membership interest Parent holds in Distributing will be treated as stock for purposes of section 355(a)(1)(A).
- (2) The Employee Transfer will not prevent Controlled from satisfying the active trade or business requirement of section 355(b) with respect to the Distribution.
- (3) Because Parent is exempt from federal income tax under section 501(c)(3) and because Parent is the sole shareholder of Distributing, the Distribution does not present evidence of device. Treas. Reg. § 1.355-2(d).

CAVEATS

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. No opinion was requested, and no opinion is expressed or implied, concerning whether the Proposed Transaction involves a material change in the taxpayer's operation or its structure under section 833(c)(2)(C).

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.

A copy of this ruling 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 this 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,

William W. Burhop
Assistant to the Branch Chief, Branch 2
Office of Associate Chief Counsel
(Corporate)