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Person To Contact:  
, ID No.

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Date:  
December 01, 2016

LEGEND

Parent =

Sub 1 =

Sub 2 =

Country A =

State A =

State B =

State C =

a =

b =

c =

d =

e =  
f =

Currency A =

Dear :

This letter responds to your authorized representatives' letter dated June 8, 2016, requesting rulings on certain federal income tax consequences of a proposed transaction (the "Proposed Transaction"). The material 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. This office has not verified any of the materials submitted in support of the request for rulings. Such materials are subject to verification on examination.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2016-1, 2016-1 I.R.B. 18 and section 3.01(50) of Rev. Proc. 2016-3, 2016-1 I.R.B. 130, regarding rulings on one or more significant issues that are presented in a transaction described in section 332, section 351, section 355, section 368, or section 1036 of the Internal Revenue Code (the "Code") or that address the tax consequences that result from the qualification of a transaction under these sections. The rulings contained in this letter only address discrete legal issues presented by the Proposed Transaction. This office expresses no opinion as to the overall tax consequences of the Proposed Transaction, including qualification of the Proposed Transaction under sections 351, 355, and 368 of the Code. Except as expressly provided in the Rulings section 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.

## FACTS

Parent is a publicly traded domestic corporation and the parent of a worldwide group (the "Worldwide Group") that includes both domestic and foreign entities. The Worldwide Group provides insurance products to customers in the United States and Country A.

Parent also is the common parent of an affiliated group that files a life-nonlife consolidated return. Sub 1, Parent's wholly owned State A subsidiary, is treated as a life insurance company under section 816 of the Code. The majority of the Worldwide Group's U.S. business is conducted directly by Sub 1 (Sub 1's U.S. business is referred to herein as the "U.S. Business"). Sub 1 also conducts the Country A business (the "Country A Business") through a branch (the "Country A Branch"). Sub 1 treats the

Country A Branch as a Currency A functional currency qualified business unit for purposes of Subpart J of the Code and other provisions of the Code applicable to foreign branches. About a% of Sub 1's insurance activities are conducted in the United States, and about b% are conducted through the Country A Branch. Sub 1 also wholly owns Sub 2, a State B corporation.

Due to the desire to operate the Country A Business in Country A corporate form rather than through the Country A Branch, the taxpayer proposes to reorganize its insurance business in a manner that will preserve the current federal income taxation of the Country A Branch without triggering significant costs in the United States and in Country A.

### PROPOSED TRANSACTION

The steps comprising the Proposed Transaction, which will be undertaken only after the relevant regulatory approvals are obtained, are as follows.

#### Reorganization of investment management functions

- (i) Currently, Sub 1's investment management functions for its U.S. and Country A assets are performed by unincorporated business units of Sub 1 in the United States and Country A. To minimize regulatory and licensing burdens that otherwise would arise in Country A upon completion of the Proposed Transaction, Sub 1 will create a State C LLC and a Country A corporation to manage assets owned by U.S. Sub and Newco (each as defined below), and Sub 1 will distribute these investment management entities to Parent.

#### Formation of new subsidiaries; obtaining insurance licenses

- (ii) Parent will form a new State A corporation ("U.S. Sub").
- (iii) Parent will contribute about c (the "Minimum Capital") to a newly formed State A LLC ("LLC 1") that will function as an insurance holding company and will not underwrite any insurance risks. LLC 1 will be disregarded as an entity separate from Parent for federal income tax purposes.
- (iv) To comply with Country A minimum capital requirements for an insurance company, LLC 1 will contribute the Minimum Capital to a newly formed, wholly owned Country A corporation ("Newco") in exchange for common stock. Newco will seek all relevant licenses to operate an insurance business in Country A. This step and step (iii) (collectively, the "Newco Formation") are expected to occur in a taxable year preceding the remaining transaction steps.

- (v) Sub 1 will form a new State A corporation (“Controlled”).

Prior to step (vi) below, U.S. Sub will obtain insurance licenses in all relevant U.S. jurisdictions, and Controlled will obtain a State A license to conduct reinsurance. The public notice required for the Country A assumption transaction (described below in step (viii)) also will precede step (vi).

#### Transfer of U.S. business

- (vi) After U.S. Sub has obtained insurance licenses in all relevant jurisdictions, Sub 1 will transfer all U.S. insurance assets and liabilities, and all economic benefits and burdens of the U.S. Business, to Controlled through 100% permanent and irrevocable reinsurance (the “U.S. Reinsurance”). The U.S. Reinsurance will be unlimited in duration and may not be unilaterally canceled by Sub 1 or Controlled. Sub 1 will remain legally liable on the U.S. policies transferred to Controlled. However, Sub 1’s U.S. policyholders will have the right to pursue policy claims against, and recover benefit payments directly from, Controlled, with no conditions precedent to their exercise of this right. Consequently, Sub 1’s U.S. policyholders will have a direct right of action against Controlled as if the policies had been underwritten originally by, or had been fully assumed by and novated to, Controlled.

Pursuant to a separate Asset Transfer Agreement (“ATA”), Sub 1 will transfer its U.S. non-insurance assets and liabilities (such as employees and offices) to Controlled in exchange for common stock. Sub 1 also will transfer all Sub 2 stock to Controlled (together with the U.S. Reinsurance and the ATA, the “Contribution”).

Additionally, Sub 1 and Controlled will execute a servicing agreement whereby Controlled will conduct all operational and administrative services associated with all U.S. policies (e.g., billing, collections, and handling policy claims and policy renewals) (the “Servicing Agreement”). The Servicing Agreement will be unlimited in duration and may not be unilaterally canceled by Sub 1 or Controlled.

Lastly, Sub 1 will transfer all substantial rights in U.S. and foreign non-Country A intellectual property (“IP”) to Controlled.

After the foregoing transfers, the economic benefits and burdens of the existing, renewal, and future U.S. Business will be completely assumed by Controlled. Sub 1 will retain no economic rights in the U.S. Business, and there will be no experience-related refunds or profit-sharing provisions in the U.S. Reinsurance. Sub 1 also will have no role in managing the U.S. insurance policies, will not write any new U.S. insurance policies, and will

retain no economic or legal rights to any IP used in the U.S. Business (the IP rights in Country A will be transferred to Newco as part of the transfer of the Country A Business, as described in step (viii) below).

The State A Department of Insurance (“DOI”) will treat the U.S. Reinsurance as an assumption transaction for statutory accounting and risk-based capital purposes. Thus, DOI will treat Sub 1 as a licensed insurance corporation with no insurance risks underwritten, and all policyholder premiums and risks associated with the U.S. Business will be reflected on Controlled’s financial regulatory filings.

- (vii) Sub 1 will distribute all of its shares of Controlled to Parent (the “Distribution”; together with the Contribution, the “U.S. Reorganization”).

#### Transfer of Country A Business

- (viii) After step (vii), Sub 1 will transfer to Newco through an assumption transaction (the “Country A Contribution”) (a) all of the Country A Business (including all substantial rights in the IP used in Country A), and (b) all of the Country A non-insurance assets and liabilities (such as employees and offices), solely in exchange for more than d% of Newco common stock (LLC 1 will hold the remainder). An assumption transaction in Country A is accomplished via a business transfer agreement combined with a public notice for the transfer of insurance contracts.

Thus, the economic benefits and burdens of all assets and liabilities held by Sub 1 in Country A will be transferred to Newco in the Country A Contribution. After the Country A Contribution, Sub 1’s Country A license will terminate, and Sub 1 will not hold any Country A policies or claim reserves. The public notice mentioned above, which will include individual notices and consents, will precede the commencement of step (vi) above. The notice will state that all assets and liabilities of the Country A Business will be transferred to Newco in the Country A Contribution.

After the Country A Contribution, Newco also will have all of the assets and liabilities relating to payment obligations on cancelled or expired policies owed to missing Country A policyholders and beneficiaries (the “Missing Policyholders”) and will assume all related operational services (e.g., settling claims). Sub 1 will remain secondarily liable to the Missing Policyholders, but Controlled will indemnify Sub 1 under the U.S. Reinsurance. Newco’s Minimum Capital will be less than e% of the estimated net fair market value of the Country A business at this time.

- (ix) Sub 1 will distribute the Newco stock to Parent (the “Country A Distribution”;

together with the Country A Contribution, the “Country A Reorganization”).

- (x) Parent will contribute the Newco common stock to LLC 1.

After the foregoing transaction steps, Sub 1 will economically own no assets or liabilities other than about \$f (in securities and cash) of minimum capital (the “Retained Capital”), its corporate charter, its certificates of authority, and its U.S. insurance licenses (collectively, the “Retained Assets”). Sub 1 also will be entitled to indemnity claim payments from Controlled under the U.S. Reinsurance.

Sub 1 must retain the Retained Capital to satisfy the minimum capital requirements for an insurance company (and to thereby remain in good standing) in all jurisdictions where Sub 1 currently conducts business even though Sub 1 no longer will be operating an insurance business after the Country A Reorganization. The Retained Capital will constitute less than e% of the estimated net fair market value of the Country A Business immediately after the Country A Distribution, and none of the Retained Capital will relate to insurance risk or business activities (i.e., this amount will not include insurance reserves). Sub 1 will permanently assign to Controlled all interest income from the \$f of Retained Capital.

#### The mergers

- (xi) Shortly after step (x), Sub 1 will merge under state law with and into U.S. Sub, with U.S. Sub surviving (the “Sub 1 Merger”). After this step (xi), U.S. Sub will be authorized to write new U.S. insurance policies. For federal income tax purposes, the taxpayer will report the Retained Assets as deemed distributed to Parent in a taxable distribution.

The Sub 1 Merger will be undertaken to reduce the complexity of regulatory approvals and to substantially minimize the time needed to execute the Proposed Transaction, and to thereby minimize the business disruption associated with the Proposed Transaction.

- (xii) Immediately after the Sub 1 Merger, Controlled will merge with and into U.S. Sub (with U.S. Sub surviving) in a transaction intended to qualify as a reorganization under section 368(a) (the “Controlled Merger”). After the Controlled Merger, U.S. Sub will succeed to both Sub 1’s and Controlled’s obligations under the U.S. Reinsurance.

The taxpayer intends the Sub 1 Merger and the Controlled Merger to occur within approximately two weeks after the U.S. Reorganization.

Election to be treated as a U.S. corporation

- (xiii) Newco will elect under section 953(d) to be treated as a U.S. corporation for federal tax purposes, effective for the calendar year in which the Country A Contribution occurs.
- (xiv) After the Proposed Transaction is completed, LLC 1 may elect to be treated as a corporation for federal tax purposes if LLC 1's status as a disregarded entity results in a disallowance of benefits under the U.S. - Country A treaty.

## REPRESENTATIONS

- (a) All of Sub 1's economic rights and obligations under all U.S. insurance contracts will be transferred to Controlled as a result of the U.S. Reinsurance. Sub 1 will neither manage the U.S. insurance contracts nor write any new U.S. insurance policies after the Contribution. The U.S. Reinsurance will be irrevocable and of unlimited duration, and it will provide Sub 1's U.S. policyholders the right to pursue policy claims against, and recover benefit payments directly from, Controlled, with no conditions precedent to the exercise of this right. The U.S. Reinsurance will neither provide Sub 1 with any right or obligation to recapture any U.S. business ceded to Controlled nor contain any experience-related refunds or profit-sharing provisions.
- (b) The Contribution and the Servicing Agreement will transfer the benefits and burdens of ownership of all assets and liabilities of the U.S. Business, other than the Retained Assets, to Controlled.
- (c) The Minimum Capital is necessary for Newco to satisfy the legal requirements for a Country A insurance corporation. The Minimum Capital will constitute less than e% of the net fair market value of Newco's assets immediately after the Country A Contribution.
- (d) Immediately prior to the Country A Contribution, Newco will have no business activity and will have no property or tax attributes other than the Country A licenses to be obtained, the Minimum Capital, any interest earned thereupon, and any related tax attributes.
- (e) The Country A Contribution will transfer the benefits and burdens of ownership of all of Sub 1's remaining assets and liabilities, other than the Retained Assets, to Newco. Immediately after the Country A Contribution, the only assets that Newco will own that were not received in the Country A Contribution will be the Country A licenses, the Minimum Capital received in

the Newco Formation, and interest, if any, earned thereupon.

- (f) Immediately following the Country A Distribution, Sub 1 will neither economically own any assets other than the Retained Assets nor have any liabilities or other obligations other than being the nominal party to U.S. insurance contracts and being secondarily liable to the Missing Policyholders. The Retained Assets will constitute less than 9% of the estimated net fair market value of the Country A Business immediately after the Country A Distribution.
- (g) Immediately following the Country A Reorganization, Parent will own all outstanding stock of Newco and will own such stock solely by reason of Parent's ownership of Sub 1 stock immediately prior to the Country A Contribution, except to the extent that Newco stock is owned by Parent (through LLC 1) by reason of the Newco Formation.
- (h) Newco will timely file a valid election under section 953(d)(1), effective for the taxable year in which the Country A Contribution occurs, to be treated as a domestic corporation for federal tax purposes. As of the date of issuance of this letter ruling, the taxpayer has no plan to revoke the section 953(d) election.
- (i) Newco will have the calendar year as its U.S. taxable year.
- (j) In the Proposed Transaction, Newco will not succeed to the items described in section 381(c) of any corporation other than Sub 1.
- (k) The insurance contracts issued by the Country A Branch are qualified foreign contracts within the meaning of section 807(e)(4)(B).

#### RULINGS

1. For federal income tax purposes, after the Contribution and the execution of the Servicing Agreement, Controlled will be the tax owner of all of Sub 1's U.S. assets and liabilities and the U.S. Business, other than the Retained Assets.
2. For federal income tax purposes, the Country A Contribution will result in a transfer of tax ownership of all of Sub 1's Country A assets and liabilities and the Country A Business, other than the Retained Assets, to Newco.
3. For purposes of Treas. Reg. § 1.368-2(m)(1)(i), the Newco stock issued in the Newco Formation will be treated as *de minimis*.



4. The potential F reorganization (within the meaning of § 1.368-2(m)(1)) of Sub 1 into Newco will begin with the Country A Contribution.
5. For purposes of § 1.368-2(m)(1)(iii), Newco's Minimum Capital and its licenses to operate an insurance business in Country A will be treated as a *de minimis* amount of assets to facilitate Newco's organization or maintain its legal existence.
6. For federal income tax purposes, the Country A Reorganization will result in the complete liquidation of Sub 1 within the meaning of § 1.368-2(m)(1)(iv).
7. For purposes of § 1.368-2(m)(1)(iv), the Retained Assets will be treated as a *de minimis* amount of assets retained for the sole purpose of preserving Sub 1's legal existence.
8. The deemed liquidation of Sub 1 in the potential F reorganization will not result in Parent succeeding to the attributes of Sub 1 described in section 381(c) and will not prevent the Country A Reorganization from satisfying § 1.368-2(m)(1)(v).
9. The Sub 1 Merger will not result in U.S. Sub succeeding to the attributes of Sub 1 described in section 381(c) and will not prevent the Country A Reorganization from satisfying § 1.368-2(m)(1)(v).
10. The fact that the Country A Reorganization might be viewed as part of a split-up of Sub 1 under section 355 that is preceded by a transfer of assets by Sub 1 to Controlled and Newco under section 351 or section 368(a)(1)(D) will not prevent the Country A Reorganization from qualifying as a reorganization under section 368(a)(1)(F).
11. The election under section 953(d) will not prevent the Country A Reorganization from satisfying § 1.368-2(m)(1)(iii) or § 1.368-2(m)(1)(vi).
12. Section 1.368-2(m)(3)(iv)(A) will not prevent the Country A Reorganization from qualifying as a reorganization under section 368(a)(1)(F).
13. The qualification of the Distribution under section 355 will not be affected by the subsequent Sub 1 Merger and the Controlled Merger. Cf. Rev. Rul. 2003-79, 2003-2 C.B. 80; Rev. Rul. 98-27, 1998-1 C.B. 1159.
14. Assuming that the Country A Reorganization qualifies as a reorganization under section 368(a)(1)(F), section 367 will not apply to the Country A Contribution because, as a result of the section 953(d) election, Newco will be

- a domestic corporation before the Country A Contribution and continuously thereafter so long as its section 953(d) election is in effect.
15. Assuming that the Country A Reorganization qualifies as a reorganization under section 368(a)(1)(F), the insurance contracts Newco has issued or will issue prior to, on, or after the date of the Country A Reorganization will continue to be “qualified foreign contracts” for purposes of sections 807(e)(4) and 848(e).
  16. The transfer by Sub 1, including the insurance contracts and service agreements, in exchange for Controlled stock will constitute a transfer of property to a controlled corporation meeting the requirements of section 351. Section 351; Rev. Rul. 94-45, 1994-2 C.B. 39.
  17. Because the transfer by Sub 1 to Controlled effectuates the transfer of insurance or annuity contracts as part of a section 351 exchange, the transfer is not subject to the provisions of sections 803 and 805 and §§ 1.817-4(d) and 1.848-2.
  18. For the taxable year in which Sub 1 transfers the insurance and annuity contracts to Controlled, Sub 1 will include in its reserves as of the close of that year, for purposes of section 807(a) and (b), the ending balances of the reserves described in section 807(c) that Sub 1 held for the contracts immediately before the transfer, and Sub 1 is not entitled to a deduction under section 805(a)(6) for transferring assets to Controlled in consideration of the assumption by Controlled of the liabilities under the insurance and annuity contracts.
  19. For the first taxable year beginning after the transfer of the insurance and annuity contracts to Controlled, Sub 1 will not include in its reserves as of the beginning of that year, for purposes of section 807(a) and (b), the ending balances of the reserves described in section 807(c) that Sub 1 held for the contracts immediately before the transfer.
  20. For the taxable year in which Sub 1 transfers the insurance and annuity contracts to Controlled, Controlled will include in its reserves at the beginning of such year, for purposes of section 807(a) and (b), the ending balances of the reserves described in section 807(c) that Sub 1 held for the contracts immediately before the transfer.
  21. Controlled will not take into premium income under section 803(a)(1) any amount with respect to the assets transferred to Controlled in consideration for the assumption of liabilities under the insurance and annuity contracts.

22. Sub 1 and Controlled will not include in net premiums under section 848(d)(1) any amount with respect to Sub 1's assets transferred to Controlled in consideration of the assumption by Controlled of liabilities under Sub 1's "specified insurance contracts" (within the meaning of section 848(e)).
23. The unamortized specified policy acquisition expenses of Sub 1 attributable to the insurance and annuity contracts transferred to Controlled will continue to be amortized by Controlled over the remaining period as the amounts would have been deductible by Sub 1.
24. The unamortized balance of any section 807(f) adjustment of Sub 1 attributable to the insurance and annuity contracts transferred to Controlled will be treated as transferred to Controlled and will continue to be amortized by Controlled over the remaining period as the amounts would have been amortized by Sub 1.
25. The transfer to Controlled of liabilities pursuant to the U.S. Reinsurance and the Servicing Agreement will have no effect on the date that each U.S. life insurance contract of Sub 1 is issued, entered into, purchased, or came into existence for purposes of sections 72(e)(4), 72(e)(5), 72(e)(10), 72(e)(11), 72(v), 101(f), 264(a)(3), 264(a)(4), 7702, and 7702A. Also, the transfer of liabilities will not require retesting or the starting of new test periods for the U.S. contracts under sections 264(d)(1), 7702(f)(7)(B) - (E), and 7702A(c)(3)(A).

#### CAVEATS

Except as expressly provided in the Rulings section 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.

#### 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 this letter ruling (PLR-118533-16).

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

Sincerely,

*Russell G. Jones*

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Russell G. Jones  
Senior Counsel, Branch 3  
Office of Associate Chief Counsel (Corporate)