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Department of the Treasury
Washington, DC 20224

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Person To Contact:
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CC:ITA:B01
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Date:
October 19, 2017

Attn:

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Dear :

This letter responds to your letter dated May 8, 2017, submitted on behalf of Taxpayer requesting an extension of time under §§ 301.9100-1 and 301.9100-3 of the Procedure and Administration Regulations to make the election described in Section 4 of Rev. Proc. 2011-29, 2011-18 I.R.B. 746, which includes attaching statements to Taxpayer's original consolidated federal income tax return for taxable year ended Date1.

FACTS

Taxpayer is a D corporation. Taxpayer files its federal income tax returns on a calendar year basis and uses an accrual method as its overall method of accounting.

C is a D corporation. C files its federal income tax returns on a calendar year basis and uses an accrual method as its overall method of accounting.

A, a foreign corporation, is a B holding company and is the ultimate parent of all of Taxpayer's operating subsidiaries. Through its subsidiaries, A is a leader in global engineering, design and consultancy. Taxpayer, a wholly-owned subsidiary of A, is a holding company. Taxpayer is the common parent of an affiliated group of corporations filing consolidated federal income tax returns that includes C. C, also an engineering and design consultancy company, combines local experience with a global knowledge base constantly striving to achieve inspiring and exacting solutions that make a genuine difference to its customers, the environment, and society as a whole.

Taxpayer acquired C in a taxable stock purchase on Date1 (the "Transaction"). On Date2, Taxpayer formed E to acquire F percent of the outstanding equity interest in C. Pursuant to a merger agreement entered into by A, Taxpayer, E, and C on Date3, E merged with and into C with C surviving the merger. As a result of the merger, Taxpayer became the owner of all of the outstanding common and preferred shares of C for an aggregate consideration of G, subject to certain adjustments and combined company performance payments, and the C shareholders received cash in exchange for their shares of C common and preferred stock. Taxpayer did not make a section 338 election.

Pursuant to an engagement letter dated Date4, A engaged H to provide assistance with acquiring an engineering or consulting firm. H identified potential targets and assisted A in soliciting interest in the acquisition of such companies. Under the terms of a subsequent engagement letter between Taxpayer and H dated Date5 ("the Engagement Letter"), Taxpayer was to pay H a I fee contingent upon the closing of a qualified transaction as the Engagement Letter. Taxpayer was also required to pay H a non-

refundable retainer fee of J per month, which was creditable against the contingent fee. Prior to the closing of the Transaction, Taxpayer paid H a total of K in monthly retainer fees. Upon the closing of the Transaction, Taxpayer incurred and paid H a contingent fee of L (I contingent fee less K retainer fees).

In Date5, M, A's Tax Director, had an e-mail exchange with N, an attorney with the law firm O, regarding the treatment of the contingent fee paid to H. N advised M that Taxpayer "should be able to deduct 70 percent of the I. However, N did not advise M to attach an election statement to Taxpayer's timely filed consolidated income tax return for the taxable year ended Date1 as required by section 4.01(3) of Rev. Proc. 2011-29. Furthermore, M did not communicate the proposed tax treatment of the contingent fee to Taxpayer or Taxpayer's tax preparer.

Taxpayer engaged P to prepare and provide advice with respect to its Form 1120, U.S. Corporation Income Tax Return, for the taxable year ended Date1 (the "Q Tax Return"). At the time of filing the Q Tax Return, neither Taxpayer nor P were aware of the advice provided by N to M regarding the treatment of the contingent fee. Taxpayer timely filed its Q Tax Return on Date6. Taxpayer capitalized the entire contingent fee of L, and did not attach the safe harbor election provided in Rev. Proc. 2011-29 to the Q Tax Return.

The omission of the election statement and failure to make the election for success-based fees was discovered on Date7 in connection with the preparation of Taxpayer's R Tax Return. S, Finance Director at C, contacted T, Partner at U, about Taxpayers US's tax treatment of the success-based fees in light of the booking of the transaction costs on Taxpayer US's R financial statements. S forwarded an email from V, Tax Manager at A, in which V recapped the legal advice from N to deduct 70 percent of the success-based fees paid to H and noted that Taxpayer appeared to have missed the deduction on its Q Tax Return. S's email asked for T's input on the issue. T advised that L of the I fee qualified for the safe harbor election for success-based fees under Rev. Proc. 2011-29, and that a statement must be attached to the Q Tax Return to make the election.

LAW

Section 263(a)(1) of the Internal Revenue Code and § 1.263(a)-2(a) of the Income Tax Regulations provide that no deduction shall be allowed for any amount paid out for property having a useful life substantially beyond the taxable year. In the case of an acquisition or reorganization of a business entity, costs that are incurred in the process of acquisition and that produce significant long-term benefits must be capitalized. *INDOPCO, Inc. v. Commissioner*, 503 U.S. 79, 89-90, 112 S. Ct. 1039, 117 L. Ed. 2d 226 (1992); *Woodward v. Commissioner*, 397 U.S. 572, 575-576, 90 S. Ct. 1302, 25 L. Ed. 2d 577 (1970).

Under § 1.263(a)-5, a taxpayer must capitalize an amount paid to facilitate the business acquisition or reorganization transactions described in § 1.263(a)-5(a). In general, an

amount is paid to facilitate a transaction described in § 1.263(a)-5(a) if the amount is paid in the process of investigating or otherwise pursuing the transaction. Whether an amount is paid in the process of investigating or otherwise pursuing the transaction is determined based on all of the facts and circumstances. *See* § 1.263(a)-5(b)(1).

Section 1.263(a)-5(f) provides that an amount paid that is contingent on the successful closing of a transaction described in § 1.263(a)-(5)(a) (i.e., a success-based fee) is presumed to facilitate the transaction. A taxpayer may rebut this presumption by maintaining sufficient documentation to establish that a portion of the fee is allocable to activities that do not facilitate the transaction.

Section 4.01 of Rev. Proc. 2011-29 provides a safe harbor election for taxpayers that pay or incur success-based fees for services performed in the process of investigating or otherwise pursuing a covered transaction described in § 1.263(a)-5(e)(3). In lieu of maintaining the documentation required by § 1.263(a)-5(f), a taxpayer may elect to allocate a success-based fee between activities that facilitate the transaction and activities that do not facilitate the transaction by treating 70 percent of the amount of the success-based fee as an amount that does not facilitate the transaction and by capitalizing the remaining 30 percent as an amount that does facilitate the transaction. In addition, the taxpayer must attach a statement to its original federal income tax return for the taxable year the success-based fee is paid or incurred, stating that the taxpayer is electing the safe harbor, identifying the transaction, and stating the success-based fee amounts that are deducted and capitalized.

Section 301.9100-1(c) provides that the Commissioner has discretion to grant a reasonable extension of time under the rules set forth in §§ 301.9100-2 and 301.9100-3 to make certain regulatory elections. Section 301.9100-1(b) defines a "regulatory election" as an election whose due date is prescribed by a regulation published in the Federal Register, or a revenue ruling, revenue procedure, notice or announcement published in the Internal Revenue Bulletin.

Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make an election. Section 301.9100-2 provides automatic extensions of time for making certain elections. Section 301.9100-3 provides extensions of time for making elections that do not meet the requirements of § 301.9100-2.

Section 301.9100-3(a) provides that requests for relief under § 301.9100-3 will be granted when the taxpayer provides evidence to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith and that granting relief will not prejudice the interests of the government.

Section 301.9100-3(b)(1) provides that a taxpayer is deemed to have acted reasonably and in good faith if the taxpayer:

(i) requests relief before the failure to make the regulatory election is discovered by the Service;
(ii) failed to make the election because of intervening events beyond the taxpayer's control;
(iii) failed to make the election because, after exercising reasonable diligence (taking into account the taxpayer's experience and the complexity of the return at issue), the taxpayer was unaware of the necessity for the election;
(iv) reasonably relied on the written advice of the Service; or
(v) reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

Section 301.9100-3(b)(3) provides that a taxpayer will not be deemed to have acted reasonably and in good faith if the taxpayer:

(i) seeks to alter a return position for which an accuracy-related penalty has been or could be imposed under § 6662 at the time the taxpayer requests relief, and the new position requires or permits a regulatory election for which relief is requested;
(ii) was informed in all material respects of the required election and related tax consequences, but chose not to file the election; or
(iii) uses hindsight in requesting relief.

Section 301.9100-3(c)(1) provides that an extension of time to make a regulatory election will be granted only when the interests of the government are not prejudiced by the granting of relief. The interests of the government are prejudiced if granting relief would result in a taxpayer having a lower tax liability in the aggregate for all taxable years affected by the election than the taxpayer would have had if the election had been timely made (taking into account the time value of money). Section 301.9100-3(c)(1)(i).

The interests of the government are ordinarily prejudiced if the taxable year in which the regulatory election should have been made or any taxable years that would have been affected by the election had it been timely made are closed by the period of limitations under section 6501(a) before the taxpayer's receipt of a ruling granting relief under this section. Section 301.9100-3(c)(1)(ii).

Section 301.9100-3(c)(2) provides special rules for accounting method regulatory elections. The interests of the government are deemed to be prejudiced except in unusual and compelling circumstances if the accounting method regulatory election for which relief is requested:

(i) is subject to the procedure set forth in § 1.446-1(e)(3)(i) of this chapter (requiring advance written consent of the Commissioner);
(ii) requires an adjustment under § 481(a) (or would require an adjustment under § 481(a) if the taxpayer changed to the method of accounting for which relief is requested in a taxable year subsequent to the taxable year in which the election should have been made);
(iii) would permit a change from an impermissible method of accounting that is an issue under consideration by examination, an appeals office, or a federal court and the change would provide a more favorable method or more favorable terms and conditions than if the change were made as part of an examination; or
(iv) provides a more favorable method of accounting or more favorable terms and conditions if the election is made by a certain date or taxable year.

ANALYSIS

The Taxpayer's election is a regulatory election, as defined in § 301.9100-1(b), because the due date of the election is prescribed in the Income Tax Regulations under § 1.263(a)-5(f). The Commissioner has the authority under §§ 301.9100-1 and 301.9100-3 to grant an extension of time to file a late regulatory election.

The information provided and representations made by the Taxpayer establish that the Taxpayer acted reasonably and in good faith. The Taxpayer reasonably relied on P, a qualified tax professional, to prepare its Q Tax Return. The Taxpayer is not seeking to alter a return position for which an accuracy related penalty has been or could be imposed under § 6662 at the time relief is requested. The Taxpayer did not affirmatively choose not to make the election after having been informed in all material respects of the required election and related tax consequences. Rather, the Taxpayer relied on P to advise it as to any relevant elections, which P failed to do with respect to this election. The Taxpayer is not using hindsight in requesting relief.

Further, based on the information provided and representations made by the Taxpayer, granting an extension will not prejudice the interests of the government. The Taxpayer will not have a lower tax liability in the aggregate for all taxable years to which the election applies at this time than the Taxpayer would have had if the election had been timely made. In addition, the taxable year in which the regulatory election should have been made and any taxable years that would have been affected by the election had it been timely made will not be closed by the period of limitations on assessment under § 6501(a) before the Taxpayer's receipt of the ruling granting an extension of time to make a late election.

CONCLUSION

Based solely on the information provided and representations made, we conclude that Taxpayer acted reasonably and in good faith, and granting relief will not prejudice the interests of the government. Accordingly, the requirements of §§ 301.9100-1 and 301.9100-3 have been met.

Taxpayer is granted an extension of 45 days from the date of this ruling to file its mandatory statements as required by Section 4.01 of Revenue Procedure 2011-29, stating that it is electing the safe harbor for success-based fees, identifying the transaction, and stating the success-based fee amounts that are deducted and capitalized.

The rulings contained in this letter are based upon information and representations submitted by Taxpayer 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.

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, including whether Taxpayer properly included the correct costs as success-based fees subject to the retroactive election, or whether Taxpayer's transactions were within the scope of Rev. Proc. 2011-29.

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 ruling should be attached to Taxpayer's federal tax returns for the tax years affected. 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 provisions of the power of attorney currently on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

/s/ Ronald J. Goldstein

Ronald J. Goldstein
Assistant to the Branch Chief, Branch 1
Office of Associate Chief Counsel
(Income Tax & Accounting)