

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
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Telephone Number:

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Date:
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LEGEND:

- Taxpayer =
- Individual =
- Date 1 =
- Date 2 =
- Date 3 =
- A =
- B =
- Company =
- Industry =
- Year =
- Date 4 =
- State =
- Date 5 =

Dear _____ :

This letter ruling is in response to a request from your authorized representative dated _____, and subsequent documentation requesting an extension of an additional five years under section 4943(c)(7) of the Internal Revenue Code for disposing of certain excess business holdings. Taxpayer represents the facts as follows.

FACTS

Taxpayer is a split-interest trust under section 4947(a)(2) formed pursuant to the will of Individual, who died on Date 1. Individual's will provided that after death, certain assets would be held in a trust for benefit, and upon death, would be transferred to Taxpayer, which qualifies as a charitable lead annuity trust. Pursuant to the will, for a period of years following death, Taxpayer is required to pay an

annuity amount to one or more charitable organizations described in sections 170(c) and 2055(a). After this -year period, Taxpayer will terminate, and all of its remaining property will be distributed to trusts for the benefit of Individual's family members.

Individual's died on Date 2. On Date 3, Taxpayer received A percent of the voting stock and B percent of the non-voting stock of Company, a international business in Industry, which was owned by Individual. Under section 4947(a)(2), Taxpayer, as a split-interest trust, is treated as a private foundation for certain purposes, including for the purposes of the excess business holdings rules contained in section 4943 (with certain limited exceptions). As a result of receiving the interests in Company, Taxpayer has excess business holdings under section 4943(c)(1).

Taxpayer states that when it received its interests in Company, it began to explore options to dispose of its excess business holdings. However, Taxpayer has encountered several obstacles. First, the COVID-19 pandemic began shortly after Taxpayer received its interests in Company, which created economic uncertainty and hampered Taxpayer's ability to arrange a fair market value sale of Company. As the pandemic has subsided, Taxpayer has faced both external and internal challenges in disposing of its excess business holdings for fair market value.

Despite these obstacles, Taxpayer represents that it has made diligent efforts during the initial five-year period to dispose of its interests in Company. However, Taxpayer's initial efforts were almost immediately hampered by the COVID-19 pandemic

Taxpayer continues to be diligent in its efforts to dispose of its excess business holdings and has a plan of disposition for Company. Taxpayer states that it will instruct Company to conduct the required infrastructural and operational updates to position the Company for a fair market value sale.

While these steps will take some time, Taxpayer states that it is hopeful that they will increase the confidence of Company's customers, employees, and suppliers.

Taxpayer states that these developments, which it estimates will take at least _____ years to accomplish, will allow Company to be sold for a sale price that properly reflects its fair market value. Taxpayer has provided a plan for targeting appropriate buyers for Company,

Taxpayer's initial five-year period for disposing of excess business holdings under section 4943(c)(6) will end on Date 4. Prior to the end of this initial five-year period, Taxpayer submitted a plan to the Internal Revenue Service for disposing of the excess business holdings in Company. Taxpayer has also submitted this plan to the State attorney general and states that it will provide the State attorney general's response to the disposition plan to the Internal Revenue Service.

Based on the documentation submitted and the facts and representations described above, Taxpayer requested the following ruling.

RULING REQUESTED

Taxpayer requests to extend for an additional five years the period of time for disposing of Taxpayer's excess business holdings under section 4943(c)(7).

LAW

Section 4943(a)(1) imposes a tax on the value of excess business holdings of any private foundation in a business enterprise.

Section 4943(c)(1) provides that the term "excess business holdings" means, with respect to the holdings of any private foundation in any business enterprise, the amount

of stock or other interest in the enterprise that the foundation would have to dispose of to a person other than a disqualified person in order for the remaining holdings of the foundation in such enterprise to be permitted holdings.

Section 4943(c)(2) provides that the permitted holdings of any private foundation in an incorporated business enterprise are 20 percent of the voting stock, reduced by the percentage of the voting stock owned by all disqualified persons.

Section 4943(c)(6) generally provides that if there is a change in a private foundation's holdings in a business enterprise (other than by purchase by the private foundation or by a disqualified person) that causes the private foundation to have excess business holdings in such enterprise, the interest of the foundation in such enterprise (immediately after such change) shall (while held by the foundation) be treated as held by a disqualified person (rather than by the foundation) during the five-year period beginning on the date of such change.

Section 4943(c)(7) provides that the Secretary may extend the section 4943(c)(6) period to dispose of excess business holdings for an additional five years in the case of an unusually large gift or bequest of diverse business holdings or holdings with complex corporate structures if:

(A) the foundation establishes that: (i) diligent efforts to dispose of such holdings have been made within the initial five-year period, and (ii) disposition within the initial five-year period has not been possible (except at a price substantially below fair market value) by reason of the size and complexity or diversity of such holdings;

(B) before the close of the initial five-year period: (i) the private foundation submits to the Secretary a plan for disposing of all of the excess business holdings involved in the extension, and (ii) the private foundation submits the plan to the attorney general (or other appropriate state official) having administrative or supervisory authority or responsibility with respect to the foundation's disposition of the excess business holdings involved and submits to the Secretary any response received by the private foundation during the five-year period; and

(C) the Secretary determines that such plan can reasonably be expected to be carried out before the close of the extension period.

Section 4947(a)(2) provides, in part, that in the case of a trust which is not exempt from tax under section 501(a), not all of the unexpired interests in which are devoted to one or more of the purposes described in section 170(c)(2)(B), and which has amounts in trust for which a deduction was allowed under certain specified sections of the Internal Revenue Code, including sections 170 and 2055, section 4943 (relating to taxes on excess business holdings) (except as provided in subsection (b)(3)), as well as certain

other specified Internal Revenue Code provisions relating to private foundations, shall apply as if such trust were a private foundation.

ANALYSIS

Pursuant to section 4947(a)(2), section 4943 applies to Taxpayer as if it were a private foundation because it is not exempt from tax under section 501(a), not all of the unexpired interests are devoted to one or more of the purposes described in section 170(c)(2)(B), and it has amounts in trust for which a deduction was allowed under sections 170 and section 2055. On Date 3, Taxpayer received a bequest of Company stock pursuant to the will of Individual. Taxpayer's ownership of Company stock constitutes excess business holdings under section 4943(c)(1), and Taxpayer received the stock and membership interest other than by purchase by Taxpayer or by disqualified persons with respect to Taxpayer. As a result, section 4943(c)(6) provides Taxpayer with an initial five-year period to dispose of its excess business holdings, which will end on Date 4.

The shares of stock received by Taxpayer are in Company, a very large business with a global presence in the complicated field of the Industry. Accordingly, Individual's bequest of Company stock to Taxpayer represents an unusually large bequest of diverse business holdings with a complex corporate structure within the meaning of IRC section 4943(c)(7).

During the initial five-year period, Taxpayer made diligent efforts to dispose of its excess business holdings in Company. However, it has been unable to do so for a variety of reasons, including economic issues relating to the COVID-19 pandemic,

Before the end of the initial five-year period, Taxpayer submitted a request under section 4943(c)(7) seeking an additional five-year period within which to dispose of its excess business holdings in Company, along with a plan for disposing of the excess business holding during the extension period. Taxpayer's plan is to conduct required infrastructural and operational updates

In addition, Taxpayer has provided a plan for identifying appropriate buyers for Company. Finally, Taxpayer submitted this plan to the Attorney General for State.

RULINGS

Based on the facts and representations submitted by Taxpayer, we have determined that Taxpayer's plan to dispose of its excess business holdings in Company can reasonably be expected to be carried out before the close of the extension period.

Therefore, we conclude that Taxpayer meets the requirements under section 4943(c)(7) for an extension of an additional five years to dispose of these excess business holdings. Consequently, Taxpayer's excess business holdings in Company will not be subject to tax under section 4943(a)(1) if Taxpayer disposes of them before the close of the extension period on Date 5.

The rulings contained in this letter are based upon information and representations submitted by or on behalf of Taxpayer and accompanied by penalty of perjury statements executed by an individual with authority to bind Taxpayer and upon the understanding that there will be no material changes in the facts. While this office has not verified any of the material submitted in support of the request for these rulings, it is subject to verification on examination. The Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes) will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts; the facts at the time of the transaction are materially different from the controlling facts on which the ruling was based; or, in the case of a transaction involving a continuing action or series of actions, the controlling facts change during the course of the transaction. See Rev. Proc. 2024-1, 2024-1 I.R.B. 1, section 11.05.

This letter does not address the applicability of any section of the Code or Regulations to the facts submitted, other than those sections specifically described. 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. IRC section 6110(k)(3) 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 Taxpayer's 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.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Taina Edlund
Senior Technician Reviewer
Exempt Organizations Branch 2
Employee Benefits, Exempt Organizations, and
Employment Taxes

cc: