

Date d =

Regulator =

Year 1 =

Amount A =

Amount B =

Amount C =

Amount D =

Amount E =

Amount F =

Base
Period =

Dear _____ :

This letter responds to a letter dated February 6, 2024, and subsequent correspondence submitted on behalf of the taxpayer, requesting a ruling under the Internal Revenue Code of 1986 (the "Code"), as amended, and related Treasury regulations, with respect to the matters described below

The ruling contained in this letter is 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 a ruling, it is subject to verification on examination.

This letter is issued pursuant to Rev. Proc. 2024-1, 2024-1 I.R.B. 1, and Rev. Proc. 2023-26, 2023-33 I.R.B. 486. No opinion is expressed as to any issue not specifically addressed by the ruling below.

Facts

Parent is a corporation organized under the laws of State A that primarily operates as a holding company. Parent is the common parent of an affiliated group of corporations that has chosen to file a life-nonlife consolidated return for U.S. federal income tax purposes in accordance with the provisions of sections 1501, 1502, and 1504(c)(2) and the Treasury regulations promulgated thereunder (the "Parent Consolidated Group").

Parent and the members of the Parent Consolidated Group use a calendar year tax year.

Life Sub 1 is a stock insurance company organized under the laws of State B that operates as a life insurance company. Life Sub 1 is an indirect, wholly owned subsidiary of Parent. Life Sub 1 qualifies as a life insurance company (within the meaning of section 816(a)) that is subject to tax under section 801(a). Life Sub 1 constitutes a life member (as defined in Treas. Reg. § 1.1502-47(b)(6)) of the life subgroup (as defined in Treas. Reg. § 1.1502-47(b)(8)) of the Parent Consolidated Group.

Life Sub 2 is a stock insurance company organized under the laws of State B that operates as a life insurance company. Life Sub 2 is an indirect, wholly owned subsidiary of Parent. Life Sub 2 qualifies as a life insurance company (within the meaning of section 816(a)) that is subject to tax under section 801(a). Life Sub 2 constitutes a life member (as defined in Treas. Reg. § 1.1502-47(b)(6)) of the life subgroup (as defined in Treas. Reg. § 1.1502-47(b)(8)) of the Parent Consolidated Group.

New Sub is a stock insurance company organized under the laws of State B that operates as a pure captive insurance company. New Sub is a direct, wholly owned subsidiary of Life Sub 1. New Sub was organized on Date a and commenced business on Date c. New Sub is regulated by Regulator and is licensed to transact business in State B.

On Date b, prior to the completion of the reinsurance transaction described in the Reinsurance Agreement (as defined below), New Sub issued shares of common stock to Life Sub 1 in exchange for an initial capital contribution from Life Sub 1 totaling Amount A (the "Capital Contribution"). To provide Life Sub 1 sufficient funds to complete the Capital Contribution, Life Sub 2 obtained consent from Regulator to make an Amount B distribution to Life Sub 1 on Date b (the "Distribution") and did so on Date b immediately before the Capital Contribution. Life Sub 1 used the proceeds of the Distribution to make the Capital Contribution.

On Date c, Life Sub 2, as cedant, and New Sub, as reinsurer, executed and undertook an indemnity reinsurance agreement (the "Reinsurance Agreement") for certain business written by Life Sub 2. As set forth in the Reinsurance Agreement, New

Sub paid a ceding commission to Life Sub 2 equal to Amount C on Date c. New Sub invested (or has otherwise maintained) the remainder of the proceeds from the Capital Contribution.

Unrelated to the formation of New Sub, during the five calendar years before Date a, Life Sub 1 and Life Sub 2 received assets from outside the Parent Consolidated Group in transactions not conducted in the ordinary course of their trades or businesses (“External Assets”). The receipt of the External Assets was before the formation of New Sub was contemplated. Consistent with their normal business practices, Life Sub 1 and Life Sub 2 did not segregate the External Assets and were not required to do so by Regulator.

For purposes of considering whether the tacking rule of Treas. Reg. § 1.1502-47(b)(12)(v) applies to New Sub in this instance, Parent determined the portion of the assets comprising the Distribution and the Capital Contribution that may be sourced to External Assets, as contemplated by the last sentence of Treas. Reg. § 1.1502-47(b)(12)(v)(A). In so doing, Parent identified inflows and outflows of assets with respect to each of Life Sub 1 and Life Sub 2 during the five calendar years before Date b, and used that information to determine the proportionate amount of the Distribution and the Capital Contribution that may be sourced to External Assets (the “Sourcing Methodology”).

Representations

1. Each of Life Sub 1 and Life Sub 2 was in existence and a member of the group (as defined in Treas. Reg. § 1.1502-47(b)(4)) of which Parent is the common parent (determined without the exclusion in section 1504(b)(2)) throughout every day of the Base Period.
2. Each of Life Sub 1 and Life Sub 2 was engaged in the active conduct of a trade or business throughout every day of the Base Period.
3. Neither Life Sub 1 nor Life Sub 2 experienced a change in tax character (as described in Treas. Reg. § 1.1502-47(b)(12)(v)(B)) during the Base Period. Specifically, each of Life Sub 1 and Life Sub 2 qualified as a life insurance company (as defined in section 816(a)) that is subject to tax under section 801(a) throughout every day of the Base Period.
4. Neither Life Sub 1 nor Life Sub 2 underwent a disproportionate asset acquisition under Treas. Reg. § 1.1502-47(b)(12)(viii) during the Base Period.
5. Under the Sourcing Methodology, at least 80 percent of New Sub’s assets immediately after the Capital Contribution (based on fair market values on Date b and without regard to liabilities) were acquired by New Sub from Life Sub 1 other than in the ordinary course of New Sub’s trade or business.

6. The Capital Contribution qualified as a transaction described in section 351(a).
7. With the approval of Regulator, Parent determined that the amount of the Capital Contribution was sufficient and appropriate to maximize New Sub's future self-sufficiency and enhance New Sub's overall financial strength and long-term stability.
8. Each of Life Sub 1, Life Sub 2, and New Sub will qualify as a life insurance company (as defined in section 816(a)) that is subject to tax under section 801(a) for Year 1.
9. The terms of the Reinsurance Agreement were determined at arm's length with the assistance of third-party advisors and were approved by Regulator. Further, Life Sub 2's cession of business to New Sub pursuant to the Reinsurance Agreement constitutes bona fide reinsurance for U.S. federal income tax purposes.
10. New Sub will not undergo a disproportionate asset acquisition under Treas. Reg. § 1.1502-47(b)(12)(viii) during Year 1.
11. As of Date b, as determined immediately before the Distribution, the total fair market value of Life Sub 2's assets was equal to Amount D.
12. As of Date b, as determined immediately after the Distribution and immediately before the Capital Contribution, the total fair market value of Life Sub 1's assets was equal to Amount E.
13. As of Date b, as determined immediately after the Distribution and immediately before the Capital Contribution, the fair market value of Life Sub 2's stock was equal to Amount E.
14. As of Date b, as determined immediately after the Capital Contribution, the total fair market value of New Sub's assets was equal to Amount A.

Ruling

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

Beginning with the tax year of the Parent Consolidated Group ending Date d, New Sub will qualify as an eligible corporation (as defined in Treas. Reg. § 1.1502-47(b)(12)) that is includible under section 1504(c)(2) as a life member (as defined in Treas. Reg. § 1.1502-47(b)(6)) of the life subgroup (as defined in Treas. Reg. § 1.1502-47(b)(8)) of the Parent Consolidated Group.

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 is expressed or implied concerning the tax treatment of the subject transaction under subchapter L of the Code and regulations thereunder.

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.

In accordance with the Power of Attorney on file with this office, copies of this letter are being sent to your 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.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel (Corporate)

cc: