# **Internal Revenue Service**

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:DOM:CORP:4 PLR-115362-98

Date:

December 22, 1998

Acquiring =

Acquisition Sub =

Parent =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

State A =

Business B =

Business C =

Date D =

<u>a</u> =

Dear Mr.

This letter responds to your July 29, 1998 request for rulings on certain federal income tax consequences of a proposed transaction.

## **Summary of Facts**

Parent, a for-profit publicly traded State A holding company, files a consolidated federal income tax return with its wholly owned subsidiaries, Sub 1, Sub 2, Sub 3, and Sub 4 (the "Parent Group"). Through its subsidiaries, Parent is engaged in Business B.

Acquiring, a nonprofit cooperative engaged in Business C, is exempt from federal income tax under § 501(c)(12) of the Internal Revenue Code. Acquiring has formed Acquisition Sub, a for-profit corporation, for the sole purpose of acquiring Parent.

#### **Proposed Transaction**

The parties have proposed and partially completed the following transaction:

- (i) On Date D, Acquisition Sub entered into an Agreement of Merger and Plan of Reorganization with Parent, under which Acquisition Sub will merge into Parent (the "Merger"). In the Merger, the shareholders of Parent will receive <u>a</u> dollars in exchange for each share of Parent stock, and Parent will become a wholly owned subsidiary of Acquiring. It is intended that the Merger be a qualified stock purchase under § 338(d)(3).
- (ii) Each member of the Parent Group will convert to nonprofit status under applicable State A law by amending its corporate articles and by-laws (the "State Law Conversions"). In the State Law Conversions, the shareholder of each member of the Parent Group will exchange its stock for a membership certificate. Each membership certificate will provide the owner with the right to vote, share profits, and receive proceeds on the corporation's liquidation.
  - (iii) Each member of the Parent Group will apply to the Internal Revenue Service

for exemption from federal income tax under § 501(a) as an organization described in § 501 (c)(12), the exemptions to take effect on the date of the State Law Conversions (the "Tax Conversions").

### Representations

The parties represent that:

- (a) The State Law Conversions will not cause dissolution of any member of the Parent Group under State A law.
- (b) As of the date of the State Law Conversions, each member of the Parent Group will qualify as a cooperative organization under § 501(c)(12).
- (c) After the State Law Conversions, each member of the Parent Group will continue to conduct its historic business.
- (d) No member of the Parent Group plans or intends to sell or otherwise dispose of any of its assets except for dispositions made in the ordinary course of business.

## Ruling

Based solely on the information submitted and representations made, and provided the Tax Conversions take effect before proposed § 1.337(d)-4 of the Income Tax Regulations becomes effective as a final regulation, the Tax Conversions will not result in the recognition of gain or loss under §§ 336 and 337.

#### Caveats

We express no opinion about the tax treatment of the transaction under any other sections of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered in the above rulings. In particular, no opinion is expressed regarding whether (i) the State Law Conversions will qualify as reorganizations under § 368(a)(1), (ii) each member of the Parent Group will qualify as a cooperative under § 501(c)(12), or (iii) the Merger is a qualified stock purchase under § 338(d)(3).

The ruling in this letter is based on the facts and representations submitted under penalties of perjury in support of the request for a ruling. Verification of that information may be required as part of the audit process.

#### **Procedural Statements**

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this ruling letter should be attached to the federal income tax return of each taxpayer involved for the taxable year in which the transaction covered by this letter is completed.

Under the power of attorney on file in this office, a copy of this letter is being sent to your authorized representative,

Sincerely yours,
Assistant Chief Counsel (Corporate)
By:
Wayne T. Murray
Senior Technician/Reviewer
Branch 4