

Internal Revenue Service

Department of the Treasury

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Date:
December 15, 1998

P =

S1 =

S2 =

T1 =

T2 =

State X =

Dear

This letter responds to your August 24, 1998 request for rulings on certain federal income tax consequences of two proposed mergers. Related rulings concerning exempt organization issues appear in a separate letter issued by the Internal Revenue Service on November 24, 1998.

Summary of Facts

P is a State X nonprofit corporation and the parent of a corporate group that provides health care services to the general public. P is the sole shareholder of T1, a State X for-profit corporation, and the sole member of S1 and S2, both of which are State X nonprofit corporations. S2 is the sole member of T2, also a State X nonprofit corporation. P's membership interest in S1 entitles P to receive liquidating distributions and select the board of directors. P, S1, and S2 are exempt from federal income taxation under §§ 501(c)(3) and 509(a)(1) of the Internal Revenue Code.

Proposed Transactions

For what are represented to be good business purposes, P proposes the following transactions:

(i) T1 will convert to a nonprofit corporation under State X law (the "Conversion").

(ii) T1 and T2 will merge with and into S1 under State X law (the "T1 Merger" and the "T2 Merger," together, the "Mergers"). In the T1 Merger, P will receive a membership interest in S1 in exchange for its membership interest in T1. In the T2 Merger, S2 will receive a membership interest in S1 in exchange for its membership interest in T2 and will immediately distribute the S1 interest to P.

Representations

The taxpayer has made the following representations concerning the proposed transactions:

(a) The fair market value of the proprietary interest in S1 received in the T1 Merger and the T2 Merger will approximately equal the fair market value of the respective T1 and T2 proprietary interests surrendered.

(b) S1 has no plan or intention to reacquire any of its proprietary interest issued in the Mergers, and no plan or intention to sell or otherwise dispose of any of the assets of T1 or T2 acquired in the Mergers.

(c) The Conversion will not result in the dissolution of T1 under State X law.

(d) To the best of the taxpayer representative's knowledge and belief, each of the Mergers will qualify as a reorganization under § 368(a)(1)(A), if the Service rules as proposed.

Rulings

Based solely on the information submitted and the representations made, we rule as follows:

(1) The T1 Merger will not result in gain or loss under §§ 336 and 337, provided the T1 Merger occurs before proposed § 1.337(d)-4 of the Income Tax Regulations becomes effective as a final regulation.

(2) The T2 Merger will not result in gain or loss under §§ 336 and 337, provided the T2 Merger occurs before proposed § 1.337(d)-4 becomes effective as a final regulation.

(3) The continuity of interest requirement set forth in § 1.368-1(b) is satisfied in the T1 Merger and in the T2 Merger.

Caveats

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from the transactions that are not specifically covered by the above rulings. In particular, no opinion was requested and none is expressed about (i) the tax consequences under § 311(b) of the distribution by S2 of the membership interest in S1 received in the T2 Merger or (ii) the tax treatment of the T1 Mergers and the T2 Merger under § 368(a)(1)(A) except to the extent indicated in ruling (3).

This ruling has no effect on any earlier documents and is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Each taxpayer involved in the transaction must attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction is completed.

In accordance with 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

Prior written determination 199908058