

## Internal Revenue Service

## Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:  
CC:DOM:CORP:5 PLR-118195-98  
Date:  
March 19, 1999

Successor  
Parent =

Parent =

Corporation A =

Corporation B =

Purchaser =

Target =

Seller 1 =

Seller 2 =

Company Officials &  
Tax Professionals =

Authorized  
Representatives =

Country C =

Date A =

Date B =

Date C =

Date D =

Business X =

Business Y =

p percent =

Dear

This responds to your Authorized Representatives' letter dated September 14, 1998, requesting an extension of time to file an election under § 301.9100-1 through 301.9100-3 of the Procedure and Administration Regulations. The extension is being requested for Successor Parent (as the common parent of the affiliated group of which Parent and Purchaser are now members, and as the United States shareholders of the controlled foreign purchasing corporation) to file a "section 338 election," under §338(g) of the Internal Revenue Code and §§ 1.338-1(d) and 1.338-1(g) of the Income Tax Regulations (hereinafter referred to as "the Election"), with respect to Purchaser's acquisition of the stock of Target on Date A. Additional information was received in a letters dated March 5 and 16, 1999. The material information submitted for consideration is summarized below.

Parent is the common parent of a consolidated group that has a calendar taxable year and uses the accrual method of accounting. Purchaser is a wholly owned foreign subsidiary of Corporation A, which in turn is a wholly owned subsidiary Corporation B. Corporation B is a wholly owned subsidiary of Parent. Prior to the transaction Purchaser was a controlled foreign corporation (CFC), within the meaning of § 957, of Parent; and after the transaction Purchaser and Target were CFCs of Parent. Prior to the acquisition, Target was owned by Sellers 1 and 2. Target and Sellers are Country C corporations. Target does not have any subsidiaries. Parent is engaged in Business X and Target is engaged in Business Y. On Date C Successor Parent, through a wholly owned subsidiary created for the purpose of the acquisition, acquired p percent of Parent's outstanding stock.

It is represented that Target was not: (1) a controlled foreign corporation within the meaning of § 957(a), (2) a passive foreign investment company for which an election under § 1295 was in effect, (3) a foreign investment company or a foreign corporation the stock ownership of which is described in § 552(a)(2), or (4) required under § 1.6012-2(g) to file a U.S. income tax return. Furthermore, prior to the acquisition Target had not filed a U.S. income tax return nor was it subject to United States income taxation.

On Date A Purchaser acquired all of the stock of Target from Sellers in a fully taxable transaction. It is represented that the acquisition of Target constituted a qualified stock purchase within the meaning of § 338(d)(3), and that Parent was not related to Sellers within the meaning of § 338(h)(3). Target became a CFC on Date A.

The Election was due on Date B, but for various reasons it was not filed. Sometime after Date D (which is after the due date for the Election) Company Officials and Tax Professionals discovered that the Election was not timely filed. Subsequently, this request was submitted, under § 301.9100-1, for an extension of time to file the Election. The period of limitations on assessment under § 6501(a) has not expired for Purchaser's, Target's or Sellers' taxable years in which the acquisition/sale was consummated, the taxable year in which the Election should have been filed, or for any taxable year(s) that would have been affected by the Election had it been timely filed.

Section 338(a) permits certain stock purchases to be treated as asset purchases if the purchasing corporation makes or is treated as having made a "section 338 election" under § 338(g) and the acquisition is a "qualified stock purchase." Section 338(d)(3) defines a "qualified stock purchase" as a purchase by a corporation, during the 12 month acquisition period, of another corporation's stock, which represents at least 80 percent of the total combined voting power of all classes of stock entitled to vote, and which has a value equal to at least 80 percent of the total value of all of the stock of such corporation.

Section 338(h)(3)(A)(iii) provides that the term "purchase" means any acquisition

of stock, but only if (1) the basis of the stock in the hands of the purchasing corporation is not determined in whole or in part by reference to the adjusted basis of such stock in the hands of the person from whom acquired, or under § 1014(a) (relating to property acquired from a decedent); (2) the stock is not acquired in an exchange to which §§ 351, 354, 355, or 356 applies and is not acquired in any other transaction described in regulations in which the transferor does not recognize the entire amount of the gain or loss realized on the transaction; and (3) the stock is not acquired from a person the ownership of whose stock would, under § 318(a), be attributed to the person acquiring such stock.

Section 1.338-2(b)(4) provides that if an election under § 338 is made for target, old target is deemed to sell target's assets and new target is deemed to acquire those assets.

Section 1.338-1(d) provides that a purchasing corporation makes a "section 338 election" for target by filing a statement of "section 338 election" on Form 8023 in accordance with the instructions on the form. The "section 338 election" must be filed not later than the 15th day of the ninth month beginning after the month in which the acquisition date occurs. A "section 338 election" is irrevocable.

A foreign purchasing corporation that does not file a U.S. income tax return must file Form 8023 (or Form 8023-A) with the Office of the Assistant Commissioner (International), Attention: Chief of Examination, 950 L'Enfant Plaza South S.W., Washington, DC 20224. Section 1.338-1(g)(3). Section 1.338-1(g)(3) provides that a statement of § 338 election may be filed by United States shareholders (as defined in § 951(b)) in certain cases if the purchasing corporation is a controlled foreign corporation (as defined in § 957(a)). In such a case, each U.S. shareholder making the election must attach a copy of Form 8023 (or Form 8023-A) and its required attachments to Form 5471 (information return with respect to a foreign corporation), and file them for the foreign purchasing corporation's tax year that includes the acquisition date.

Section 1.1502-77(a) provides that the common parent, for all purposes (other than for several purposes not relevant here), shall be the sole agent for each subsidiary in the group, duly authorized to act in its own name in all matters relating to the tax liability of the consolidated return year. See also Form 8023 (and/or Form 8023-A) and the instructions thereto.

Under § 301.9100-1(c), the Commissioner has discretion to grant a reasonable extension of time to make a regulatory election, or a statutory election (but no more than six months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H, and I, provided the taxpayer demonstrates to the satisfaction of the Commissioner that:

- (1) The taxpayer acted reasonably and in good faith, and,

(2) Granting relief will not prejudice the interests of the government.

Section 301.9100-1(b) defines the term "regulatory election" as including an election whose due date is prescribed by a regulation, revenue ruling, revenue procedure, notice, or announcement. 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 a regulatory election. Section 301.9100-1(a). Section 301.9100-2 provides automatic extensions of time for making certain elections. Section 301.9100-3 provides extensions of time for making regulatory elections that do not meet the requirements of § 301.9100-2. Requests for relief under § 301.9100-3 will be granted when the taxpayer provides evidence to establish 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(a).

In this case, Parent (as the common parent of the affiliated group of which Purchaser, a CFC, is a member) was required by §§ 1.338-1(d) and 1.338-1(g)(3) to file the Election on Date B. However, for various reasons the Election was not filed. Subsequently, Successor Parent filed this request, under § 301.9100-1, for an extension of time to file the Election. The time for filing the Election is fixed by the regulations (i.e., § 1.338-1(d)). Therefore, the Commissioner has discretionary authority under § 301.9100-1 to grant an extension of time for Successor Parent to file the Election, provided Parent establishes it acted reasonably and in good faith, granting relief will not prejudice the interests of the government, and the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied.

Information, affidavits, and representations submitted by Successor Parent, Parent, Company Officials & Tax Professionals, and Authorized Representatives explain the circumstances that resulted in the failure to file a valid Election. The information establishes that a tax professional was responsible for the Election, that Parent relied on the tax professional to timely make the Election, and that the government will not be prejudiced if relief is granted. See § 301.9100-3(b)(v).

Based on the facts and information submitted, including the representations that have been made, we conclude that Parent has established it acted reasonably and in good faith in failing to timely file the Election, the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied, and granting relief will not prejudice the interests of the government. Accordingly, we grant an extension of time under § 301.9100-1, until 30 days from the date of issuance of this letter, for Successor Parent (as the United States shareholder) to file the Election with respect to Purchaser's acquisition of the stock of Target on Date A, as described above.

The above extension of time is conditioned on the taxpayers' (Successor Parent's, Parent's, Corporation A's, Purchaser's, Target's, and Seller's) United States

tax liability being not lower, in the aggregate for all years to which the election applies, than it would have been if the Election had been timely made (taking into account the time value of money). No opinion is expressed as to the taxpayers' tax liability for the years involved. A determination thereof will be made by the District Director's office upon audit of the federal income tax returns involved. Further, no opinion is expressed as to the federal income tax effect, if any, if it is determined that the taxpayers' liability is lower. Section 301.9100-3(c).

Successor Parent (as the common parent of the affiliated group of which Purchaser, a CFC, is a member) should file the Election and provide "notice" in accordance with §§ 1.338-1(d) and 1.338-1(g). That is, a new election on Form 8023 (or Form 8023-A) must be executed on or after the date of this letter, which grants an extension, and filed in accordance with the instructions on the election form (together with the information that is required to be attached to the election form). Parent's and "old" Target's returns must be amended, as applicable to report the acquisition as a "section 338 transaction." A copy of this letter should be attached to the election form and a copy of this letter and the election form should be attached to the returns. See, Announcement 98-2, 1998-2 I.R.B. 38, and § 1.338-1(g).

No opinion is expressed as to (1) whether Purchaser's acquisition of Target stock qualifies as a "qualified stock purchase", (2) whether the acquisition of Target stock qualifies for § 338(a) treatment, and (3) if the acquisition of Target stock qualifies for § 338(a) treatment, as to the amount of gain or loss recognized (if any) by Target on the deemed asset sales.

In addition, no opinion is expressed as to the tax effects or consequences of filing the election late under the provisions of any other section of the Code and regulations, or as to the tax treatment of any conditions existing at the time of, or resulting from, filing the election late that are not specifically set forth in the above ruling. For purposes of granting relief under § 301.9100-1, we relied on certain statements and representations made by the taxpayer, its employees and representatives. However, the District Director should verify all essential facts. In addition, notwithstanding that an extension is granted under § 301.9100-1 to file the election, penalties and interest that would otherwise be applicable, if any, continue to apply.

This letter 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 letter is being sent to the first person listed under the legend "Company Official," pursuant to a power of attorney on file in this office.

Sincerely yours,  
Assistant Chief Counsel (Corporate)

By \_\_\_\_\_  
Charles M. Levy  
Counsel to the Assistant  
Chief Counsel (Corporate)