

**Internal Revenue Service**

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:  
CC:DOM:CORP:2-PLR-105127-99  
Date:  
September 16, 1999

LEGEND:

Corporation A =

Corporation B =

Parent =

Sub =

State Z =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Year 1 =

This is in response to your letter dated February 26, 1999, requesting rulings on behalf of the above named taxpayer as to the federal income tax consequences of a completed transaction. Specifically, rulings were requested under § 336 and § 337 of the Internal Revenue Code. Additional information was provided in letters dated April

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16, July 19, and September 2, 1999. The material information submitted for consideration is summarized below.

Corporation A is a State Z nonprofit corporation that is exempt from federal income taxation pursuant to an Internal Revenue Service determination letter issued on Date 1. Corporation A wholly owns Parent, which in turn wholly owns Sub. Parent is the common parent of an affiliated group of corporations filing consolidated returns (the "Parent group"). Corporation B is a wholly-owned subsidiary of Sub. Corporation B was incorporated in Year 1 as a taxable for-profit corporation under the laws of State Z. Corporation B employs the accrual method of accounting and has a taxable year ending on Date 2.

Corporation A acquired all of the stock in Corporation B on or before Date 3 in a transaction that is represented to qualify under § 355 (the "Distribution"). Prior to the Distribution, Corporation B was a member of the Parent group and joined in the filing of the Parent group's consolidated return.

Corporation B has engaged in the following transaction:

(1) On Date 3 (a date prior to the effective date of the final regulations under § 1.337(d)-4)), Corporation B filed amended and restated articles of incorporation pursuant to the laws of State Z, to convert from a for-profit corporation to a nonprofit corporation (the "State Law Conversion").

(2) On Date 4, Corporation B filed Form 1023, Application for Recognition of Exemption, requesting exemption from federal income tax under § 501(a) as an organization described in § 501(c)(3).

In a letter issued on Date 5, the Internal Revenue Service determined that Corporation B is exempt from federal income tax under § 501(a) of the Code as an organization described in § 501(c)(3). The effective date of the exemption is Date 3.

The following representations have been made in connection with the transaction:

- (a) The conversion of Corporation B from for-profit to nonprofit status through amendment of its articles of incorporation did not cause a dissolution under the law of State Z.
- (b) After the conversion, Corporation B continues to conduct its historic business.
- (c) Corporation B has no plan or intention to sell or otherwise dispose of its assets except for dispositions made in the ordinary course of business.

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Based solely on the information submitted and representations made, we rule as follows: the conversion of Corporation B from a taxable for-profit corporation to a tax-exempt nonprofit corporation will not result in the recognition of gain or loss under § 336 and § 337.

No opinion is expressed about the tax treatment of the transaction under any 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 transaction that is not specifically covered by the above ruling. In particular, no opinion is expressed as to whether (i) the State Law Conversion qualifies as a reorganization under § 368(a)(1), (ii) the Distribution of the stock in Corporation B qualifies under § 355 or § 301, or (iii) the consolidated return regulations under § 1502 apply to the distribution of the stock in Corporation B to Corporation A, pursuant to which Corporation B leaves the Parent group.

The rulings in this letter are 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.

This ruling is addressed 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 occurred.

In accordance with a power of attorney currently on file with this office, a copy of this ruling is being sent to the taxpayer.

Sincerely,

Assistant Chief Counsel (Corporate)

By: *Lewis K. Brickates*

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Lewis K Brickates  
Assistant to Chief, Branch 2