



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224
January 18, 2000

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TL-N-556-99
UILC: 1.1502.20-00

INTERNAL REVENUE SERVICE NATIONAL OFFICE FIELD SERVICE ADVICE

MEMORANDUM FOR

FROM: Deborah A. Butler
Assistant Chief Counsel CC:DOM:FS

SUBJECT: 1.1502-20 Loss Disallowance

This Field Service Advice responds to your memorandum dated October 15, 1999, and provides supplemental advice to the Field Service Advice issued on September 29, 1999. Field Service Advice is not binding on Examination or Appeals and is not a final case determination. This document is not to be cited as precedent.

LEGEND:

P =
S1 =
S2 =
S3 =
X =
Y =
Date 1 =
Date 2 =
Date 3 =
Date 4 =
Date 5 =
Date 7 =
Date 8 =
B and C =
D =

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d =

e =

f =

\$b =

\$c =

\$d =

\$e =

\$f =

\$g = _____

\$h =

\$i =

\$j =

\$k =

FACTS

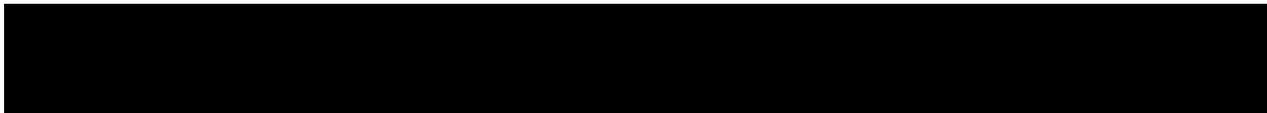
P is the parent of a consolidated group of corporations. On Date 1 (the latest date in this memorandum), P owned 100% of the stock of S1, which P had purchased on Date 2. On Date 3, S1 incorporated S2. In incorporating S2, S1 contributed cash and its B and C businesses to S2 in exchange for S2 stock. S1 retained its D business. Subsequently, S1 distributed its S2 stock to P.

On Date 4, P formed S3 by contributing its S1 stock to S3 in exchange for S3 stock. On Date 5, S1 distributed the d to S3, which, in turn, distributed d to P. S1 recognized a gain of \$b on the distribution pursuant to section 311(b), which was deferred under Treas. Reg. § 1.1503-13(c). The d was previously used by S1 in its D business.

On Date 1, S3 sold its S1 stock to X for \$c. S3 claimed a loss on this sale. S1's deferred gain of \$b was taken into account at the time of this sale. See Treas. Reg. § 1.1502-13(f)(iii). P filed an election under Treas. Reg. § 1.1502-20(g) to reattribute S1 losses to P.

ISSUE

Whether the taxpayer's or the Service's computation, in the incoming request for advice, of the loss disallowed to the parent on the sale of the subsidiary's stock under Treas. Reg. § 1.1502-20 is correct?

CONCLUSION



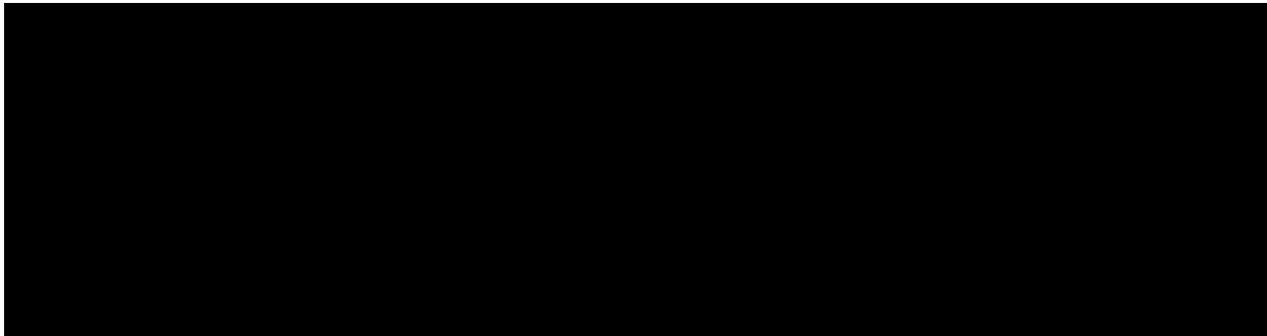
DISCUSSION

LAW AND ANALYSIS

The Loss Disallowance Rules

The Treas. Reg. § 1.1502-20 ("-20") loss disallowance rules generally provide that no deduction is allowed for any loss recognized by a member with respect to the disposition of stock of a subsidiary. "Disposition" means any event in which gain or loss is recognized, in whole or in part. Treas. Reg. § 1.1502-20(a)(2). Treas. Reg. § 1.1502-20(c) specifies that the amount of loss disallowed under paragraph (a)(1) with respect to the disposition of a share of stock will not exceed the sum of the following three items: (1) the extraordinary gain dispositions amount; (2) the positive investment adjustments amount; and (3) duplicated loss amount.

CASE DEVELOPMENT, OTHER CONSIDERATIONS



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¹ [Redacted]

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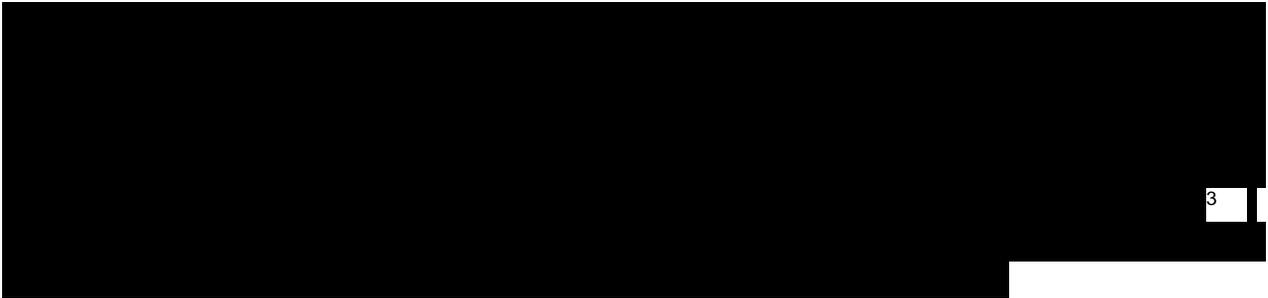
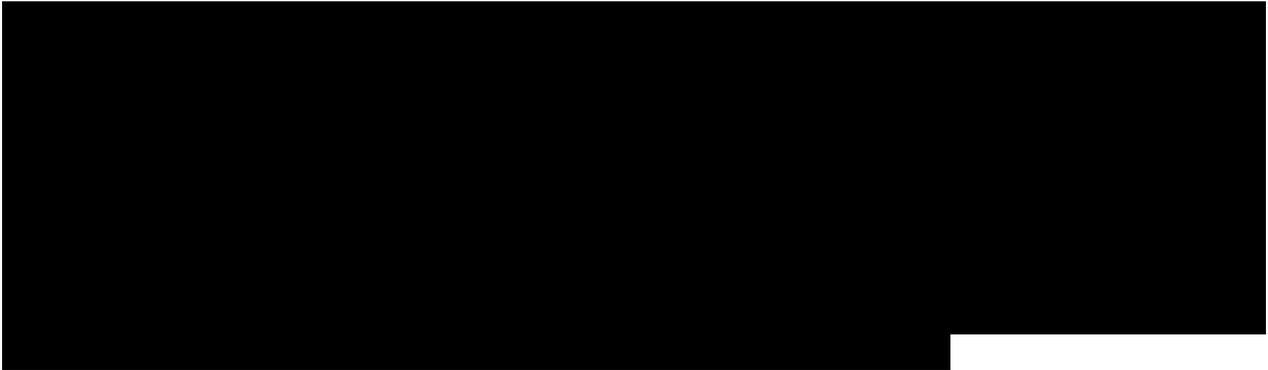
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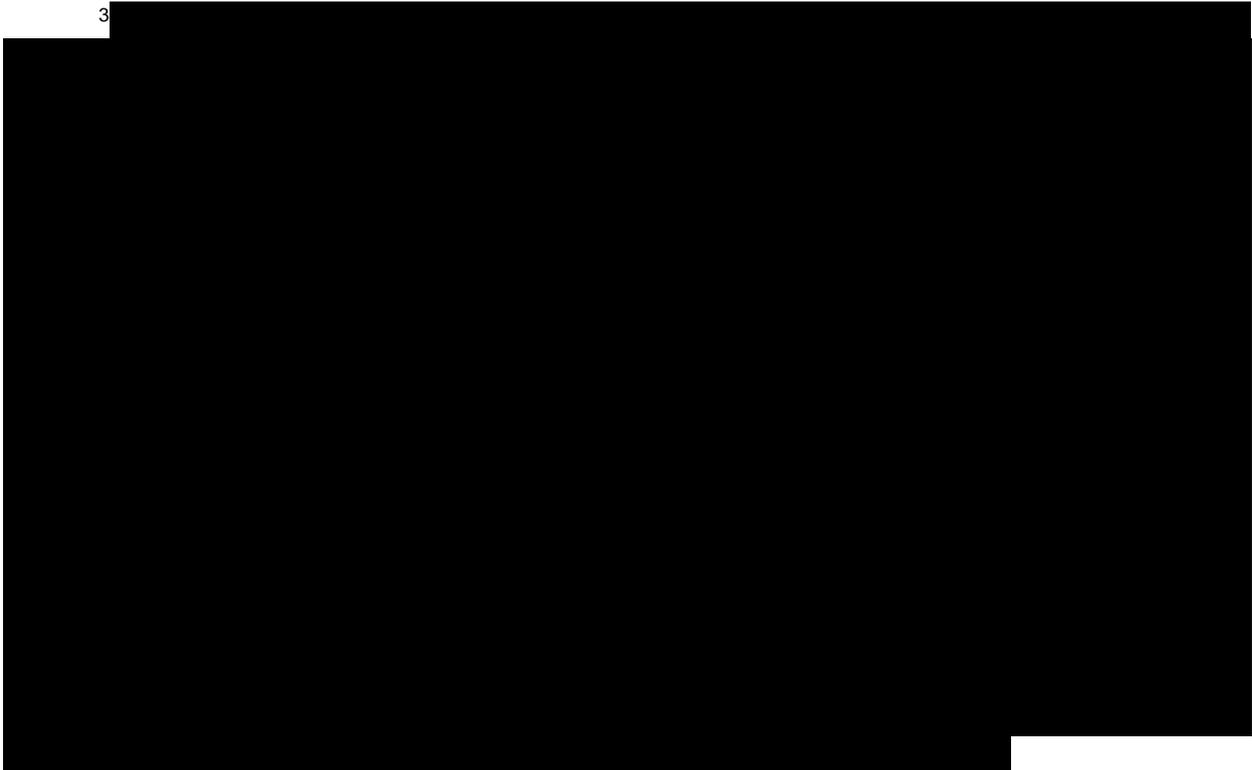
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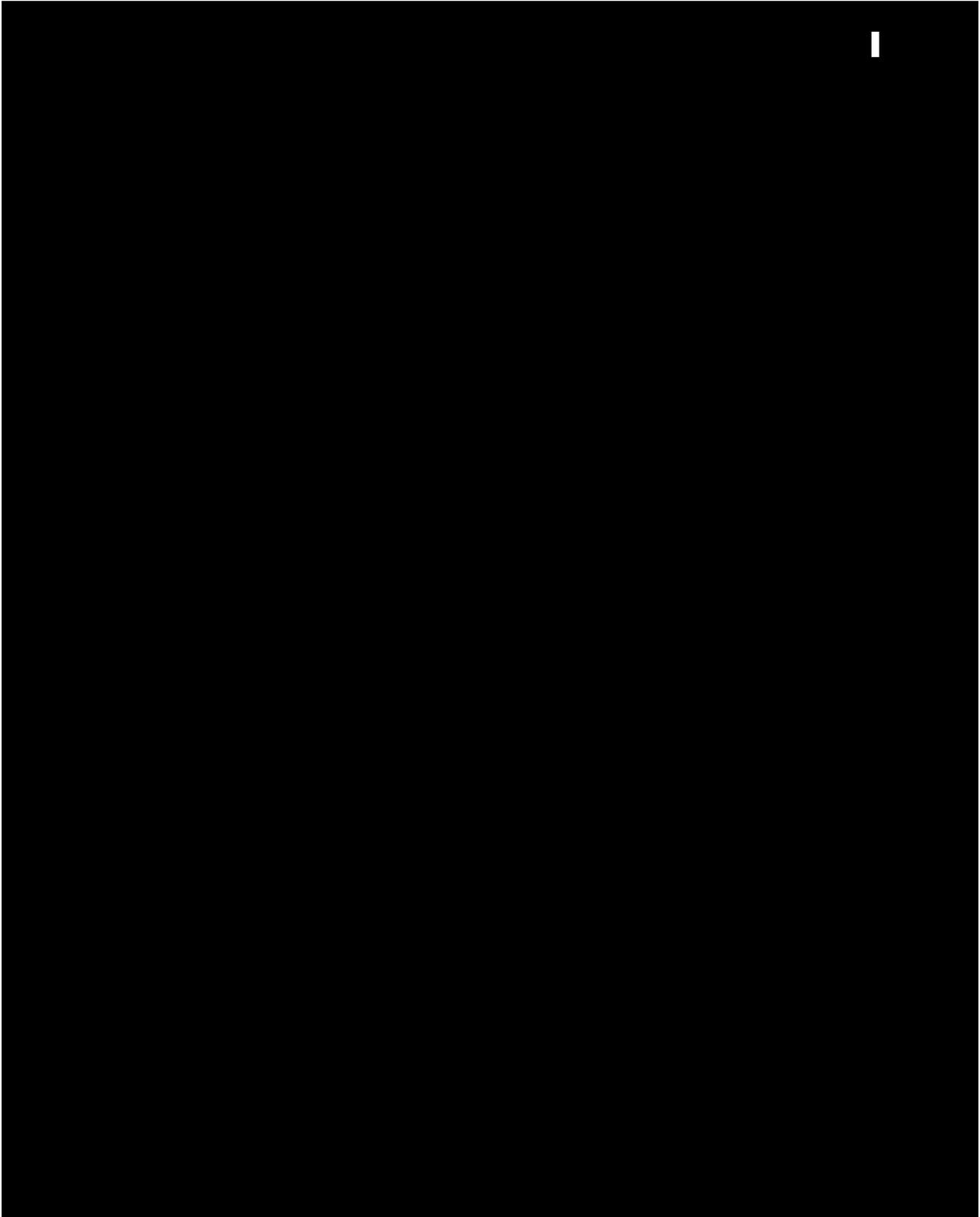
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If you have any further questions, please call 622-7930.

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