

**Internal Revenue Service**

Department of the Treasury

Index Number: 355.03-00; 355.03-01;  
83.01-00; 162.07-29

Washington, DC 20224

Number: **200022025**  
Release Date: 6/2/2000

Person to Contact:

Telephone Number:

Refer Reply To:  
CC:DOM:CORP:1-PLR-115775-99  
Date:  
March 1, 2000

Legend

Distributing =

Controlled =

Business A =

Business B =

Date A =

Date B =

X% =

P =

Q =

X =

Y =

Dear :

We respond to your letter dated September 23, 1999, in which you requested a supplemental ruling to a private letter ruling (PLR-102968-99) issued on July 9, 1999 (the "Prior Letter Ruling"). Additional information was submitted on October 14, 1999, November 1, 1999, November 3, 1999, December 7, 1999, and December 16, 1999.

In the Prior Letter Ruling, we issued a favorable ruling under § 355 allowing Distributing to separate its Business A and Business B subsidiaries. In the proposed transaction, Distributing formed Controlled on Date A by contributing to it its Business B subsidiaries. Distributing will distribute Controlled pro-rata to its shareholders. The business purpose for the transaction is so that Distributing and Controlled can each focus solely on their respective businesses.

Prior to Date A, Distributing proposed to have an equity offering of X% of its stock to reduce its debt to equity ratio and maintain an investment grade rating with respect to Business A. As of Date B, Distributing had bank indebtedness of \$P and the principal amount of its publicly held notes and debentures totaled \$Q. However, since Date B, Distributing's Business A has deteriorated financially, making it virtually impossible for Distributing to find investors resulting in Distributing's abandonment of the equity offering. As a result, Distributing will no longer be able to maintain an investment grade rating, devaluing the publicly held bonds and debentures, and increasing Distributing's interest rate on the bank loan. A consequence of the above events has forced Distributing to redeem the bonds and debentures. To this end, Distributing refinanced its bank loan by borrowing the necessary amount on a new credit facility and having Controlled assume part of the borrowed funds. Currently, Distributing has obtained a new line of credit of \$X of which Controlled has assumed \$Y (the "Debt Assumption").

Based solely on the facts submitted above, we hold as follows:

(1) The Debt Assumption will be treated as a distribution of property pursuant to section 301.

(2) Based on the foregoing information, the proposed change to the original transaction will have no effect on the validity of the rulings contained in the Prior Letter Ruling and those rulings will remain in full force and effect.

We express no opinion with respect to the tax treatment of the proposed transaction under other provisions of the Code and regulations or with respect to the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transactions that are not directly covered by the above rulings.

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

A copy of this letter should be attached to the federal income tax returns of the taxpayers involved for the taxable year in which the transaction covered by this ruling letter is consummated.

In accordance with the power of attorneys on file in this office, copies of this letter are being sent to your authorized representatives.

Sincerely,

Assistant Chief Counsel (Corporate)

By: \_\_\_\_\_  
Mark S. Jennings  
Acting Chief, Branch 1