

Internal Revenue Service

Department of the Treasury

Index Number: 355.01-00, 368.04-00,
367.10-04, 1248.01-00

Washington, DC 20224

Number: **200040024**
Release Date: 10/6/2000

Person to Contact:

Telephone Number:

Refer Reply To:
CC:DOM:CORP:4 - PLR-103033-00
Date:
July 7, 2000

P =

S1 =

S2 =

S3 =

Distributing =

Controlled =

Newco =

S4 =

S5 =

S6 =

S7 =

S8 =

S9 =

S10 =

S11 =

S12 =

F1 =

F2 =

F3 =

F4 =

F5 =

F6 =

F7 =

F8 =

F9 =

F10 =

F11 =

F12 =

F13 =

F14	=
<u>a</u>	=
<u>b</u>	=
<u>c</u>	=
<u>d</u>	=
<u>e</u>	=
<u>f</u>	=
<u>g</u>	=
<u>h</u>	=
<u>i</u>	=
<u>j</u>	=
<u>k</u>	=
<u>l</u>	=
<u>m</u>	=
Financial Advisors	=
Business A	=
Business B	=
Business B1	=
Business B2	=
Business C	=
Country Y	=

This letter responds to your February 3, 2000 request for rulings on the federal income tax consequences of a proposed transaction. The facts submitted in this request and later correspondence are summarized below.

The rulings contained in this letter are based upon the facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for a ruling. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Publicly traded P is the common parent of a consolidated group of domestic and foreign subsidiaries that engage in Business A, Business B (including Business B1 and Business B2), and Business C (the "P Group"). P owns all of S1, S2, and S3, a percent of F1, b percent of F2, and c percent of F3. All "F" subsidiaries in this Summary of Facts are foreign entities.

S1 owns all the stock of Newco, F4, and F5, d percent of Distributing (a Country Y corporation), e percent of Controlled (a Country Y corporation), f percent of F6, g percent of F7, and h percent of F8. The remaining stock of Distributing and Controlled (less than one percent) is owned by P and S3. F4 owns i percent of F9 and is disregarded as an entity separate from S1 for federal tax purposes. Distributing owns j percent of F13. S2 owns all the stock of S4, S5, S6, S7, S8, S9, S10, S11, S12, and F10, k percent of F11, l percent of F12, and m percent of F14.

Distributing directly conducts Business B2 and Business C. We have received financial information indicating that each of these businesses has had gross receipts and operating expenses representing the active conduct of a trade or business for each of the past five years.

Business B1 operates as a division within the P Group and is not considered a core business by P management. Consequently, Business B1 management must obtain approval from P management (including financing authority) before pursuing its own business opportunities. Ordinarily this approval is not given unless the Business B1 suggestion also will benefit Business C. Therefore, to allow Business B1 management greater freedom to address the Business B1 needs, it is proposed that the assets of this business and related Business B2 be aggregated in a separate corporation (“Newco”) and that stock of Newco be sold to the public. This will provide Business B1 with needed growth capital and, although Newco will continue as a member of the P Group, will limit P’s ability to interfere in decision-making by imposing on P a fiduciary obligation to the minority public shareholders of Newco. In detailed and reasoned letters, the Financial Advisors of P have concluded that this offering would yield a significantly greater return if, among other reasons, the Business B1 and Business B2 assets were combined in a domestic corporation owned by P rather than a foreign corporation owned by foreign Distributing.

Proposed Transaction

The proposed transaction will consist of the following steps:

- (i) S1 will transfer the stock of F5, F6, F7, and F8 (Business B1 ventures) to Newco.
- (ii) S1 and S2 will merge into P (this will give P 99.9 percent each of Distributing and Controlled, and S3 .1 percent).
- (iii) F4 will transfer the stock of F9 (a Business B1 venture) to Newco.
- (iv) Distributing will transfer all of its assets and liabilities (including Business C) (the “Wanted Assets”) to Controlled except for the assets and liabilities that relate to Distributing’s Business B2 and the j percent interest in F13 (a Business B1 venture) (the

“Separation”).

(v) P will contribute to Newco (a) the stock of Distributing (which will then hold only the F13 stock and the Business B2 assets), (b) the stock of S4, S5, S6, S7, S8, S9, S10, S11, S12, F1, F2, F3, F10, F11, F12 and F14 (all Business B1 ventures), and (c) its other Business B1 assets (including all related personnel).

(vi) Newco will sell up to 20 percent of its stock in an initial public offering, leaving P with 80 percent or more of the Newco stock.

(vii) There is a reasonable likelihood that P will distribute the stock of Newco to its shareholders within 12 months (the rulings given below do not require this distribution, however).

Representations

P has submitted the following representations concerning the Separation (as recast below in ruling (1)):

(a) No part of the consideration distributed by Distributing in the Distribution (as defined below in ruling (1)) is being received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of the corporation.

(b) The five years of financial information submitted on behalf of Distributing for Business B2 and Business C represents the corporation's present operation of each business, and with regard to each business, there have been no substantial operational changes since the date of the last financial statements submitted.

(c) Immediately after the Distribution, the gross assets of Business B2 as directly conducted by Distributing will have a fair market value equal to at least five percent of the total fair market value of all the gross assets of Distributing, including the stock of its subsidiaries.

(d) Immediately after the Distribution, the gross assets of Business C as directly conducted by Controlled will have a fair market value equal to at least five percent of the total fair market value of all the gross assets of Controlled, including the stock of its subsidiaries.

(e) Following the Distribution, Distributing and Controlled each will continue the active conduct of its business, independently and with its separate employees.

(f) Except as part of the proposed transaction described above, there is no plan or intention by the shareholders or security holders of Distributing to sell, exchange, transfer by gift, or otherwise dispose of any of their stock in, or securities of, either

Distributing or Controlled after the transaction.

(g) There is no plan or intention by either Distributing or Controlled, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the transaction, other than through stock purchases meeting the requirements of section 4.05(1)(b) of Rev. Proc. 96-30, 1996-1 C.B. 696, 705.

(h) The Distribution is not part of a plan or series of related transactions (within the meaning of § 355(e) of the Internal Revenue Code) pursuant to which one or more persons will acquire, directly or indirectly, stock possessing 50 percent or more of the total combined voting power of all classes of stock of Distributing or Controlled entitled to vote, or 50 percent or more of the total value of shares of Distributing or Controlled.

(i) There is no plan or intention to liquidate either Distributing or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the transaction, except in the ordinary course of business.

(j) The total adjusted basis and the fair market value of the assets transferred to Controlled by Distributing each equals or exceeds the liabilities assumed (as determined under § 357(d)) by Controlled.

(k) The liabilities assumed (as determined under § 357(d)) in the transaction were incurred in the ordinary course of business and are associated with the assets being transferred.

(l) No intercorporate debt will exist between Distributing and Controlled at the time of, or after, the Distribution.

(m) Payments made in connection with all continuing transactions between Distributing and Controlled will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(n) Distributing, Controlled, and P are not investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(o) In connection with the various domestic and foreign restructuring transactions contemplated in the ruling request, none of P, S1, S2 or their domestic subsidiaries will transfer property, directly or indirectly, to a foreign corporation in an exchange described in § 367(a).

(p) In connection with the various domestic and foreign restructuring transactions contemplated in the ruling request, none of P, S1, S2 or their domestic subsidiaries will transfer, directly or indirectly, any intangible property to a foreign

corporation in an exchange described in § 367(d).

(q) In connection with the various domestic and foreign restructuring transactions contemplated in the ruling request, none of P, S1, S2 or their domestic subsidiaries will transfer property to a foreign partnership which would be subject to the reporting requirements of § 6038.

(r) Distributing and Controlled each will be a controlled foreign corporation (“CFC”) within the meaning of § 957(a) before and immediately after the Separation.

(s) P has elected to treat F4 as an entity that is disregarded as a separate entity for U.S. tax purposes. Accordingly, F4 will not be a CFC before or immediately after F4 transfers F9 to P. F9 does not have more than 50 percent U.S. ownership and will not be a CFC before or immediately after such transfer.

(t) F5 will be a CFC before and immediately after S1 transfers its stock to Newco. F6 and F7 do not have more than 50 percent U.S. ownership and are not CFCs.

(u) S4, S5, S6, S7, S8, S9, S10, S11, and S12 are U.S. entities. F1, F2, F3, F11, F12, and F14 do not have more than 50 percent U.S. ownership and are not CFCs. F8 and F10 will be CFCs before and immediately after P transfers their stock to Newco.

(v) In connection with the proposed transaction, it is not contemplated that any of the entities will license any property rights to another entity involved in the various transactions.

(w) None of P, S1, S2, or Newco has been or will be a United States real property holding corporation (“USRPHC”), as defined in § 897(c)(2), at any time during the five-year period ending on the date of the proposed transaction, and none of them will be a USRPHC immediately thereafter.

(x) None of Distributing, Controlled, F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, F12, or F14 is a passive foreign investment company as defined in § 1297.

(y) The notice requirements of § 1.367(b)-1(c)(1) of the Income Tax Regulations will be met with regard to the proposed transaction.

(z) There are no dual resident corporations involved in the proposed transaction.

Rulings

Based solely on the information submitted and the representations set forth

above, we rule as follows:

(1) For federal income tax purposes, the transaction described above in step (iv) (the "Separation") will be treated as if Distributing had (i) formed Controlled, (ii) transferred the Wanted Assets to Controlled in exchange for 99.9 percent of the Controlled stock and the assumption by Controlled of related liabilities (the "Contribution"), and (iii) distributed the Controlled stock to P (the "Distribution") (see Rev. Rul. 77-191, 1977-1 C.B. 94).

(2) The Contribution, followed by the Distribution, will be a reorganization under § 368(a)(1)(D). Distributing and Controlled each will be "a party to a reorganization" under § 368(b).

(3) No gain or loss will be recognized by Distributing on the Contribution (§§ 361(a) and 357(a)).

(4) No gain or loss will be recognized by Controlled on the Contribution (§ 1032(a)).

(5) The basis of each Wanted Asset received by Controlled will equal the basis of that Wanted Asset in the hands of Distributing immediately before the Contribution (§ 362(b)).

(6) The holding period of each Wanted Asset received by Controlled from Distributing will include the period during which that Wanted Asset was held by Distributing (§ 1223(2)).

(7) No gain or loss will be recognized by Distributing on the Distribution (§§ 361(c)).

(8) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) P on its receipt of the Controlled stock in the Distribution (§ 355(a)(1)).

(9) The holding period of the Controlled stock received by P will include the holding period of the Distributing stock on which the Distribution is made, provided P holds the Distributing stock as a capital asset on the date of the Distribution (§ 1223(1)).

(10) P will recognize no gain, loss, or deemed dividend as a result of the Contribution or the Distribution (§ 1.367(b)-5(c)).

(11) The earnings and profits of Distributing, to the extent attributable to the Distributing stock under § 1.1248-2 or § 1.1248-3 (whichever is applicable) that were

accumulated in taxable years beginning after December 31, 1962, during the period P held the Distributing stock (or was considered as holding it by reason of the application of § 1223) while Distributing was a controlled foreign corporation, will be attributable to such stock held by Newco (§ 1.1248-1(a)(1)).

(12) The transfer of Wanted Assets by Distributing to Controlled in exchange for Controlled stock is a reorganization to which § 1.367(b)-4(a) applies.

(13) The transfer of Controlled stock to P is a distribution to which §1.367(b)-5(a) and (c) apply.

(14) The earnings and profits of the foreign subsidiary corporations, to the extent attributable to their stock under §1.1248-2 or 1.1248-3 (whichever is applicable), that were accumulated in taxable years beginning after December 31, 1962, during the period P or S1 held their stock (or was considered as holding it by reason of the application of §1223) while the foreign subsidiaries were CFCs will be attributable to such stock held by Newco (§1.1248-1(a)(1)).

Caveats

We express no opinion about the tax treatment of the proposed transaction under any other provision of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the proposed transaction that are not specifically covered in the above rulings. In particular, no opinion is expressed regarding:

(a) The transfers described above in steps (i) and (iii).

(b) The mergers described above in step (ii).

(c) The treatment of S3 in the Separation.

(d) The contributions described above in step (v).

(e) Whether any or all of the above-referenced foreign corporations are passive foreign investment companies (within the meaning of § 1297(a) and the regulations to be promulgated thereunder). If it is determined that any or all of the above-described foreign corporations are passive foreign investment companies, no opinion is expressed on the application of §§ 1291 through 1298 to the proposed transactions. In particular, in a transaction in which gain is not otherwise recognized, regulations under § 1291(f) may require gain recognition notwithstanding any other provision of the Code.

(f) The federal income tax consequences of the various foreign restructuring transactions described above other than the Separation. In particular, no opinion is

expressed about the application § 1248 to any foreign restructuring transaction.

Temporary or final regulations relating to one or more of the issues addressed in this ruling (including regulations under § 358(g) and § 1297(a)) have yet to be adopted. Therefore, this ruling letter may be modified or revoked if adopted temporary or final regulations are inconsistent with any conclusions reached herein. See § 12.04 of Rev. Proc. 2000-1, 2000-1 I.R.B. 4, which discusses in greater detail the revocation or modification of ruling letters. However, when the criteria in § 12.05 of Rev. Proc. 2000-1 are satisfied, a ruling is not revoked or modified retroactively except in rare or unusual circumstances.

Procedural Statements

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 must be attached to the federal income tax return of each taxpayer involved for the taxable year in which the proposed transaction is completed.

Under a power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely,
Assistant Chief Counsel (Corporate)
By: Wayne T. Murray
Senior Technician Reviewer, Branch 4