

Internal Revenue Service

Department of the Treasury

Number: **200210035**
Release Date: 3/8/2002
Index Number: 331.00-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:4 - PLR-133663-01

Date:

December 6, 2001

X =

Sub =

Business A =

Business B =

Business C =

Date 1 =

Date 2 =

Z =

m =

State Y =

State Z =

We respond to your June 19, 2001 request for rulings regarding certain federal income tax consequences of a proposed transaction.

Summary of Facts

X is an S corporation that, until Date 2, conducted Businesses A, B, and C. Business C was partly conducted by Sub, a wholly owned subsidiary that was a qualified Subchapter S subsidiary (QSub) under § 1361(b)(3)(B) of the Internal Revenue Code.

On Date 1, the Board of Directors of X adopted a plan of complete liquidation, which was approved by the shareholders of X on Date 2. During the period after Date 2, X disposed of the assets of Businesses A, B, and C, including the stock of Sub, in transactions treated for tax purposes as asset sales. Businesses A and C and one part of Business B were sold for cash. The other part of Business B was sold to

corporation Z for cash and the stock of Z that constituted m percent of the total stock of Z. X distributed the stock of Z to its shareholders immediately after the sale to Z closed.

Since Date 2, X has made distributions to its shareholders and will continue to distribute assets in liquidation of X. The liquidation will be completed no later than three years from Date 2.

The taxpayers have submitted the following representations in connection with the proposed transaction:

- (a) No formal or informal plan of liquidation has ever been adopted by X, except for the plan adopted on Date 2.
- (b) No part of the consideration to be received by any shareholder will be received by the shareholder as a creditor, employee, or in any capacity other than as a shareholder of the corporation.
- (c) Pursuant to the plan of liquidation, X has ceased to be a going concern and its activities are limited to the winding up of its affairs, paying its debts, and distributing any balance of its assets to its shareholders.
- (d) The status of liquidation existed at the time of the first liquidating distribution and will continue until the final liquidating distribution is made.
- (e) The fair market value of X exceeded its liabilities both at the date of adoption of the plan of liquidation and at the time the first liquidating distribution is made.
- (f) No distribution of assets representing earned but unreported income will be made by X to its shareholders in the liquidation.
- (g) The liquidating distributions described in this ruling request are an isolated transaction and are not related to any other past or future transaction.
- (h) X does not maintain a reserve for bad debts.

Rulings

Based solely on the information submitted and the representations set forth above, we rule that:

- (1) The amounts distributed by X to its shareholders on or after Date 2 will be treated as full payment in exchange for the shareholder's stock, provided all X's assets are distributed to the shareholders in complete redemption of all stock within the 3-year period starting on Date 2 (§ 331(a) and

346(a)).

- (2) Gain or loss will be recognized by X on the distribution of its property (other than cash) to its shareholders in complete liquidation of X as if the property were sold to its distributees at fair market value, subject to the limitations on recognition of loss of § 336(d) (§ 336(a)).

Caveats

We express no opinion on the federal income tax treatment of the proposed transaction under other provisions 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 by the above rulings.

Procedural Statements

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

Each taxpayer involved in the transaction should attach a copy of this letter to the taxpayer's federal income tax return for the taxable year in which the transaction is completed.

In accordance with the power of attorney on file in this office, a copy of this letter is being sent to the taxpayer and to a second authorized representative.

Sincerely,
Assistant Chief Counsel (Corporate)
By: Lewis K Brickates
Acting Chief, Branch 4