Internal Revenue Service

Department of the Treasury

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CC:CORP:B06-PLR-131196-00
Date:
April 10, 2001

LEGEND:

Foreign Parent =

Parent =

Holding =

Corporation A =

Individual C =

State X =

Country Y =

B% =

Business X =

Date A =

Date B =

Date C =

Date D =

This letter responds to your authorized representative's letter dated December 5, 2000, in which rulings were requested as to certain federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated January 5, 2001, February 27, 2001, and March 21, 2001.

Foreign Parent is a Country Y corporation that wholly owns Parent, a U.S. corporation incorporated in State X that is the common parent of an affiliated group of corporations that files a consolidated federal income tax return (the "Parent Group"). Parent is engaged in Business X. The Parent Group includes Holding, a wholly owned subsidiary of Parent. Holding is a corporation incorporated in State X that owns B% of Parent stock that it acquired from Individual C on Date A. Parent holds a debenture (the "Debenture") that was issued by Holding to Individual C on Date B. Parent acquired the Debenture from Corporation A, a State X corporation, when Corporation A merged with and into Parent on Date C. Corporation A acquired the Debenture from Individual C on Date D for its face amount plus accrued interest.

For what the taxpayer represents are valid business reasons, the following transaction is proposed:

Under State X law, Parent will cause Holding to merge with and into Parent. Parent will succeed to all of Holding's assets, operations and liabilities (the "Merger").

The taxpayer has made the following representations about the proposed transaction:

(a) Parent, on the date of adoption of the plan of Merger, and at all times until the Merger is completed, will be the owner of 100 percent of the total combined voting power of all classes of Holding stock entitled to vote and the owner of 100 percent of the total value of all classes of stock (excluding nonvoting stock that is limited and preferred as to dividends and otherwise meets the requirements of § 1504 of the Code).

(b) No shares of Holding have been redeemed during the three years preceding the adoption of the Merger.

(c) The Merger will take place within a single taxable year.

(d) Effective as of the effective date of the Merger, the corporate existence of Holding will cease under applicable local law.

(e) There is no plan or intention to sell or otherwise dispose of any Holding stock prior to the Merger, or for Holding to issue any additional shares of Holding stock.

(f) Holding will not retain any assets following the Merger.

(g) Holding will not have acquired assets in any nontaxable transaction except for acquisitions occurring more than three years prior to the date of adoption of the plan of Merger.

(h) No assets of Holding will have been, or will be, disposed of either by Holding or Parent except for dispositions in the ordinary course of business and dispositions occurring more than three years prior to adoption of the plan of Merger.

(i) The Merger will not be preceded or followed by the reincorporation in, or transfer of assets to, a recipient corporation (Recipient) of any of the businesses or assets of Holding, if persons holding, directly or indirectly, more than 20 percent in value of Holding stock also hold, directly or indirectly, more than 20 percent in value of the stock of Recipient. For purposes of this representation, ownership will be determined by application of the constructive ownership rules of § 318(a) of the Code, as modified by § 304(c)(3).

(j) Prior to adoption of the Merger plan, no assets of Holding will have been distributed in kind, transferred, or sold to Parent, except for (i) transactions occurring in the normal course of business and (ii) transactions occurring more than three years prior to adoption of the Merger plan.

(k) Holding will report all earned income represented by assets that will be distributed to its shareholder, such as receivables being reported on a cash basis, unfinished construction contracts, commissions due, etc.

(l) The fair market value of the assets of Holding will exceed its liabilities both at the date of the adoption of the plan of Merger and immediately prior to the Merger.

(m) The Debenture will be extinguished in the Merger. Corporation A acquired the Debenture for its face amount plus accrued interest. Neither Parent nor Corporation A has taken a bad debt deduction with respect to any portion of the Debenture nor has any portion of such Debenture been acquired by Parent or Corporation A from third parties at a discount.

(n) Parent is not an organization that is exempt from federal income tax under § 501 or any other provision of the Code.

(o) All of the outstanding stock of Holding is owned by Parent. There are no minority shareholders.

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

(1) For federal income tax purposes, the Merger will be treated as a distribution by Holding to Parent in complete liquidation of Holding, within the meaning of § 332 of the Code (§ 1.332-2(d)).

(2) No gain or loss will be recognized to Parent on the receipt of the assets of and liabilities of Holding distributed pursuant to the Merger (§ 332(a)).

(3) No gain or loss will be recognized by Holding upon the distribution of its assets and liabilities to Parent pursuant to the Merger (§ 337(a)).

(4) Parent will succeed to and take into account the items of Holding described in § 381(c), subject to the provisions and limitations of § 381(b) and (c) and the regulations thereunder (§ 381(a) and § 1.381(a)-1).

(5) Pursuant to § 381(c)(2) and § 1.381(c)(2)-1, Parent will succeed to and take into account the earnings and profits of Holding as of the date of the transfer (as defined by § 1.381(b)-1(b)). Any deficit in earnings and profits of Parent or Holding will be used only to offset earnings and profits accumulated after the date of distribution (§ 381(c)(2)(B)).

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no opinion is expressed or implied concerning the federal tax treatment of the distribution of the Debenture by Holding to Parent in the Merger. Further, no opinion is expressed or implied regarding the characterization of the Debenture as debt for federal tax purposes.

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

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant.

Associate Chief Counsel (Corporate)

By:

Joseph M. Calianno

Joseph M. Calianno
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