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Date:

June 08, 2005

Distributing =

Controlled =

State W =

State X =

State Y =

State Z =

Date 1 =

Business A =

Business B =

Product C =

Product D =

Product E =

Product F =

G Services =

h =

i =

Dear :

This letter responds to your March 15, 2005 request for rulings on certain federal income tax consequences of a proposed transaction. The information submitted is summarized below.

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

In particular, this office has not reviewed any information pertaining to, and has made no determination regarding, whether the Distribution (defined below in ruling (1)) (i) satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations, (ii) is used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both (see § 355(a)(1)(B) of the Internal Revenue Code and § 1.355-2(d)), or (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in Distributing or Controlled (see § 355(e) and § 1.355-7).

Summary of Facts

Distributing is a State W member-owned, non-stock agricultural cooperative association organized under the State W Agricultural Co-operative Act and tax-exempt under § 521. Distributing conducts Business A and Business B.

The proprietary interest of each member of Distributing is evidenced by a membership certificate (a "Membership Interest") plus one or more of the following non-membership items: a capital retain certificate, a revolving fund certificate, or a letter of advice (each, a "Patronage Interest"). A member's Membership Interest and Patronage Interest(s) together are referred to as an "Equity Interest."

A member may have an Equity Interest in Business A and an Equity Interest in Business B, but holding an Equity Interest in one business does not necessarily

mean the member holds an Equity Interest in the other business. There are h current members and j former members of Distributing that hold Equity Interests in both Business A and Business B. These members and former members cumulatively constitute less than five percent of the total equity of Business A and Business B.

Business A markets, processes, and distributes Product C within State W, State X, State Y, and State Z, and Product D and Product E nationwide. Business B markets and distributes Product F and provides G Services within State X.

Distributing wholly owns Controlled, a stock agricultural cooperative association organized under the State W Agricultural Co-operative Act and tax-exempt under § 521. Controlled was formed on Date 1 to participate in the separation of Business A from Business B described below.

To eliminate management, systemic, and other problems within Distributing and to allow Business A members and Business B members to concentrate on their respective businesses, Distributing proposes to separate Business B from Business A.

Proposed Transaction

The most direct method of separating the businesses would have Distributing transfer Business B to Controlled for Controlled Equity interests and then exchange these interests for the Distributing Equity Interests held by Business B members. Under State W law, however, a direct transfer of Business B by Distributing to Controlled would give rise to dissenter's rights, and if a significant number of members exercised these rights, a considerable amount of Controlled's equity would be withdrawn, impairing Controlled's ability to operate as a going concern after the transaction. To prevent this possibility, Distributing proposes to separate the two businesses in the following manner (the "Transaction"):

(i) Business A and Business B each will pay off any interdivisional liabilities it owes.

(ii) Controlled will cancel Distributing's single share of Controlled stock, leaving Distributing with no interest in Controlled.

(iii) Distributing will transfer Business B to Controlled.

(iv) Under the State W Agricultural Co-operative Act:

(a) Business B members will be treated as transferring their outstanding Business B Membership Interests to Controlled. Each Business B member who has a fully paid Business B Membership Interest will receive in return a fully paid share of Controlled common stock. Each Business B member who has

a partially paid Business B Membership Interest will be deemed to receive in return a subscription for a Controlled share; the member will also be deemed to have paid the same amount for the subscription as the member had paid toward the Business B Membership Interest.

(b) Each member and former member will be treated as transferring its, his, or her Patronage Interest(s) to Controlled in exchange for proportionate Patronage Interest(s) in Controlled. The dollar amount of the Controlled Patronage Interest(s) that each Business B member receives will be allocated by Controlled in the same way that Distributing allocated this amount.

(c) Controlled will be treated as transferring the Business B Equity Interests to Distributing in exchange for Business B and in cancellation of the Equity Interests.

Representations

Distributing has made the following representations concerning the Contribution and the Distribution (as defined in ruling (1) below):

(a) The fair market value of the Controlled Equity Interest to be received by each Business B member will approximately equal the fair market value of the Business B Equity Interest surrendered by the Business B member in the exchange.

(b) No part of the consideration distributed by Distributing will be received by a member as a creditor, employee, or in any capacity other than that of a member of Distributing.

(c) The five years of financial information submitted on behalf of Business A and Business B represent the present operation of each business, and regarding each business, there have been no substantial operational changes since the date of the last financial statements submitted.

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

(e) The Distribution is carried out to eliminate management, systemic, and other problems within Distributing and to allow the Business A members and the Business B members to concentrate on their respective businesses. The Distribution is motivated, in whole or substantial part, by these corporate business purposes.

(f) The Distribution is not used principally as a device for the distribution of earnings and profits of Distributing or Controlled or both.

(g) The total adjusted basis and the fair market value of the assets transferred to Controlled each will equal or exceed the sum of any liabilities assumed (as determined under § 357(d)) by Controlled. Any liabilities assumed (within the meaning of § 357(d)) by Controlled were incurred in the ordinary course of business and are associated with the assets being transferred.

(h) There is no plan or intention to liquidate 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 Distribution, except in the ordinary course of business.

(i) The Distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7T) pursuant to which one or more persons will acquire directly or indirectly Equity Interests representing a 50-percent or greater interest (as defined in § 355(d)(4)) in Distributing or Controlled (including any predecessor or successor of any such corporation).

(j) The Distribution will not be a disqualified distribution (as defined in § 355(d)(2)) because immediately after the Distribution: (i) no person (determined after applying § 355(d)(7)) will hold disqualified stock (defined in § 355(d)(3)) in Distributing that will constitute a 50-percent or greater interest (defined in § 355(d)(4)) in Distributing, and (ii) no person (determined after applying § 355(d)(7)) will hold disqualified stock (defined in § 355(d)(3)) in Controlled that will constitute a 50-percent or greater interest (defined in § 355(d)(4)) in Controlled.

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

(l) Payments made in connection with any 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.

(m) Neither Distributing nor Controlled is an investment company as defined in § 368(a)(2)(F)(iii) and (iv).

(n) The total fair market value of the assets transferred to Controlled by Distributing will exceed the sum of (a) the amount of liabilities assumed (within the meaning of §357(d)) by Controlled in connection with the exchange, (b) the amount of liabilities owed to Controlled by Distributing that are discharged or extinguished in connection with the exchange, and (c) the amount of any money and the fair market value of any other property (other than stock permitted to be received under § 361(a) without the recognition of gain) received by Distributing in connection with the exchange. The fair market value of the assets of Controlled will exceed the amount of its liabilities immediately after the exchange.

(o) Immediately before the Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see §1.1502-13 and §1.1502-14 as in effect before the publication of T.D. 8597, 1995-2 C.B. 147, and as currently in effect; §1.1502-13 as published by T.D. 8597). Further, any excess loss account Distributing may have in the Controlled stock will be included in income immediately before the Distribution to the extent required by regulations (see §1.1502-19).

Rulings

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

(1) For federal income tax purposes, the steps described above in paragraphs (ii) through (iv) will be disregarded and the Transaction will instead be treated as if (a) Distributing had transferred Business B to Controlled in exchange for Controlled Equity Interests representing control (within the meaning of § 368(c)) of Controlled (the "Contribution") and (b) Distributing had then transferred the Controlled Equity Interests to the Business B members in exchange for their Business B Equity Interests in Distributing (the "Distribution").

(2) The Contribution, followed by the Distribution, will qualify as a reorganization under § 368(a)(1)(D). Distributing and Controlled will each be "a party to the reorganization" within the meaning of § 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 asset received by Controlled will equal the basis of that asset in the hands of Distributing immediately before the Contribution (§ 362(b)).

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

(7) No gain or loss will be recognized by Distributing on the Distribution (§ 361(c)(1)).

(8) No gain or loss will be recognized by (and no amount will otherwise be included in the income of) any member of Distributing on the Distribution (§ 355(a)(1)).

(9) The aggregate basis of the Controlled Equity Interest in the hands of each Controlled member immediately after the Distribution will equal the aggregate basis of the member's Business B Equity Interest immediately before the Distribution (§§ 358(a)(1) and 358(b)(1)).

(10) The holding period of the Controlled Equity Interest received by each Controlled member will include the holding period of the Distributing Equity Interest exchanged therefor (§ 1223(1)).

(11) Earnings and profits will be allocated between Distributing and Controlled in accordance with §§ 312(h) and 1.312-10(a)).

Caveats

We express no opinion about the tax treatment of the Transaction under other provisions of the Code and regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the Transaction that are not specifically covered by the above rulings.

Procedural Statements

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

A copy of this ruling letter must be attached to the federal income tax return of each taxpayer involved in the Transaction for the taxable year in which the Transaction is completed.

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

Sincerely,

Associate Chief Counsel (Corporate)

By: _____
Wayne T. Murray
Acting Deputy Associate Chief Counsel
(Corporate)

cc: