Internal Revenue Service

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Department of the Treasury
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September 11, 2006

In Re:

TY:

Legend

Parent =

FS 1 =

FS 2 =

US Parent 1 =

Sub 1 =

Lifeco 1 =

Lifeco 2 =

Lifeco 3 =

US Parent 2 =

Sub 2 =

Lifeco 4 =

Lifeco 5 =

Country X =

Country Y =

Year 1 =

Year 2 =

Year 3 =

Date 1 =

Date 2 =

Date 3 =

First Prior Ruling Letter =

Second Prior Ruling Letter =

Dear :

This letter is in response to your letter dated January 20, 2006, requesting a ruling that the proposed disposition of the equity of US Parent 1 will not constitute a disposition within the meaning of Temp. Treas. Reg. § 1.884-2T(d)(5). Additional information was submitted in subsequent letters.

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. The information submitted for consideration is substantially as set forth below.

Summary of Facts

Parent is a Country X corporation that is the parent of a worldwide group of insurance and financial service corporations. FS 1 is a Country X corporation all of whose common stock is held by Parent; preferred stock of FS 1 is held by the public. Although FS 1 formerly operated in the United States through a branch, it terminated that branch and no longer conducts any business in the United States other than through subsidiaries. FS 2, a Country X corporation, is wholly owned by FS 1.

US Parent 1 is a domestic limited liability company that operates as a holding company and has elected under Treas. Reg. § 301.7701-3(a) to be treated as a corporation for federal income tax purposes. US Parent 1 is wholly owned by FS 2. US Parent 1 and its subsidiaries file a consolidated return (the “US Parent 1 Group”) that includes both life insurance companies (life companies) and corporations other than life insurance companies (nonlife companies) under § 1504(c) and Treas. Reg. § 1.1502-47. Sub 1, a domestic holding company, is wholly owned by US Parent 1 and a member of the US Parent 1 Group.

Lifeco 1 is a domestic life insurance company that is wholly owned by Sub 1. Lifeco 2 and Lifeco 3 are Country Y reinsurance companies that have elected under § 953(d) to be taxed as domestic corporations. Lifeco 2 is wholly owned by Sub 1. Lifeco 3 is wholly owned by Lifeco 2. Lifeco 1, Lifeco 2, and Lifeco 3 are members of the US Parent 1 Group.

US Parent 2 is a domestic limited liability company that has elected to be treated under Treas. Reg. § 301.7701-3(a) as a corporation for federal income tax purposes. US Parent 2 is wholly owned by Parent. US Parent 2 and its subsidiaries file a

consolidated return (the "US Parent 2 Group") that includes both life companies and nonlife companies. Sub 2, a domestic holding company, is wholly owned by US Parent 2 and a member of the US Parent 2 Group. Parent acquired all of the stock of Sub 2 in Year 3 and transferred all of that stock to US Parent 2 in Year 3 in exchange for all of the equity interests in US Parent 2.

Lifeco 4, a domestic life insurance company, is wholly owned by Sub 2. Lifeco 5 is a Country Y reinsurance company that has elected under § 953(d) to be taxed as a domestic corporation. Lifeco 5 is wholly owned by Sub 2. Lifeco 4 and Lifeco 5 are members of the US Parent 2 Group.

Between Date 1 and Date 2, FS 1 restructured its United States operations through a number of transactions that qualified for nonrecognition treatment under § 351 (the "Pre-Year 1 Restructuring"). The Pre-Year 1 Restructuring resulted in the transfer of FS 1's United States operations from a branch to wholly owned domestic subsidiaries. In that restructuring, Sub 1 obtained certain assets from FS 1 that would have resulted in a branch profits tax liability to FS 1 under § 884 in the absence of a ruling from the Internal Revenue Service (IRS) pursuant to Temp. Treas. Reg. § 1.884-2T(d)(5)(ii). As a condition for obtaining the First Prior Letter Ruling from the IRS that FS 1 would not be subject to any branch profits tax as a result of the Pre-Year 1 Restructuring, FS 1 agreed to include certain amounts in income for United States federal income tax purposes on the disposition of Sub 1 stock.

On Date 3, FS 1 further restructured its United States operations (the "Year 2 Restructuring"). Specifically, FS 1 formed FS 2 and transferred all of the stock of Sub 1 in exchange for FS 2 Class A common stock. Immediately thereafter, FS 2 transferred the stock of Sub 1 to U.S. Parent 1 in exchange for all the equity interests of US Parent 1. The two transfers described above qualified for nonrecognition treatment under § 351.

As a result of the Year 2 Restructuring, FS 1 would have had a branch profits tax liability under § 884 under the terms of the First Prior Letter Ruling in the absence of a new ruling from the IRS. The Second Prior Letter Ruling provided that the transfer of the stock of Sub 1 from FS 1 to FS 2 and from FS 2 to US Parent 1 would not constitute a "disposition" of the Sub 1 stock for branch profits tax purposes, provided that certain agreements were entered into. Specifically, FS 2 was required to execute a statement under Temp. Treas. Reg. § 1.884-2T(d)(5) pursuant to which it agreed to treat as a dividend equivalent amount upon the disposition of the equity interests in US Parent 1 an amount equal to the lesser of (a) the amount realized on such disposition or (b) the total amount of the effectively connected earnings and profits ("ECE&P") and non-previously taxed accumulated ECE&P that was allocated (or was previously treated as allocated) from FS 1 to Sub 1, except to the extent that amount was previously taken into account by FS 1 or FS 2 as dividends or dividend equivalent amounts for tax or branch profits tax purposes.

Proposed Transaction

Parent now has two separate chains of United States subsidiaries. Parent proposes to combine the US Parent 1 and US Parent 2 consolidated groups into one consolidated group under US Parent 2. The following transactions will precede the combination of the US Parent 1 and US Parent 2 Groups:

(i) FS 1 will distribute all the stock of FS 2 to Parent.

(ii) Parent will contribute some or all of its interests in US Parent 2 to FS 2. After this step, FS 2 will own equity interests in both US Parent 1 and US Parent 2.

Parent then proposes to combine the US Parent 1 Group and US Parent 2 Group through the following transactions, all of which will occur at approximately the same time and pursuant to a single plan of reorganization (the "Proposed Reorganization").

(iii) US Parent 1 will merge into US Parent 2 in a statutory merger that will not be a "reverse acquisition" of US Parent 2 under Treas. Reg. § 1.1502-75(d)(3) (the "Parent Merger"). In the Parent Merger, FS 2 will receive an appropriate number of additional equity interests in US Parent 2 equal to the value of FS 2's equity interests in US Parent 1 (the "Parent Merger Equity") before the merger.

(iv) Sub 1 will merge into Sub 2 in a statutory merger. Sub 2 will issue one additional share of its stock to US Parent 2 in the merger

(v) Lifeco 1 will merge into Lifeco 4 in a statutory merger. Lifeco 4 will issue one additional share of its stock to Sub 2 in the merger.

(vi) Lifeco 3 will transfer all of its assets (other than a nominal amount of capital) to Lifeco 5, which will assume all of the liabilities of Lifeco 3. With respect to the reinsurance treaties in which Lifeco 3 is a party, Lifeco 5 will assume all of the rights and obligations of Lifeco 3 under the treaties and the ceding companies will consent to that assumption. After this transfer and assumption, Lifeco 3 will be liquidated pursuant to Country Y law.

(vii) Lifeco 2 will transfer all of its assets (other than a nominal amount of capital and the stock of "shell" Lifeco 3) to Lifeco 5, which will assume all of the liabilities of Lifeco 2. With respect to the reinsurance treaties in which Lifeco 2 is a party, Lifeco 5 will assume all of the rights and obligations of Lifeco 2 under the treaties and the ceding companies will consent to that assumption. After this transfer and assumption, Lifeco 2 will be liquidated pursuant to Country Y law.

(viii) After the liquidations, the nominal amounts of capital retained in the asset transfers by Lifeco 2 and Lifeco 3 will be transferred by Sub 2 (as the survivor of the merger of Sub 1 into Sub 2) to Lifeco 5. After this step, Lifeco 5 will hold all of the assets and liabilities held by Lifeco 2 and Lifeco 3 before the transactions.

The transfers of the assets of each of Lifeco 2 and Lifeco 3 to Lifeco 5 will constitute "special acquisitions" by Lifeco 5 within the meaning of Treas. Reg. § 1.1502-47(d)(12)(viii).

Representations

Parent has submitted the following representations in connection with the proposed transaction:

(a) US Parent 1 and US Parent 2 are each treated as a corporation for United States federal tax purposes.

(b) The statutory mergers in the Proposed Reorganization will each constitute a reorganization under § 368(a)(1)(A). The transfers of the assets of Lifeco 2 and Lifeco 3 to Lifeco 5, the assumption by Lifeco 5 of the liabilities of each of Lifeco 2 and Lifeco 3, and the related actions described in steps (vi), (vii), and (viii) of the Proposed Reorganization will constitute reorganizations of Lifeco 2 and Lifeco 3 under § 368(a)(1). Accordingly, each such transaction will constitute a transaction to which § 381(a)(2) will apply.

(c) The merger of US Parent 1 into US Parent 2 will not constitute a "reverse acquisition" of US Parent 2 within the meaning of Treas. Reg. § 1.1502-75(d)(3).

(d) After the Proposed Reorganization, US Parent 2 will continue as the parent of the US Parent 2 group.

(e) Lifeco 5 has been in existence and engaged in the active conduct of a reinsurance business since Year 1.

(f) US Parent 1, Sub 1, Lifeco 1, Lifeco 2, and Lifeco 3 are "eligible members" (within the meaning of Treas. Reg. § 1.1502-47) of the US Parent 1 Group, and US Parent 2, Sub 2, Lifeco 4, and Lifeco 5 are "eligible members" of the US Parent 2 Group.

(g) After the Proposed Reorganization, each of US Parent 2, Sub 2, Lifeco 4, and Lifeco 5 will meet the requirements provided in subparagraphs (A), (B), and (C) of Treas. Reg. § 1.1502-47(d)(12)(i)) with regard to the US Parent 2 group, and, subject to the receipt of rulings (2), (3), (4), (5), (6), (7), and (8), below, will meet the requirements of subparagraph (D) of Treas. Reg. § 1.1502-47(d)(12)(i).

(h) All reinsurance agreements entered into by Lifeco 2, Lifeco 3, and Lifeco 5 (the "Reinsurance Agreements") were entered into in the ordinary course of business of each of those corporations.

(i) To the extent that a reinsurance agreement was entered into by Lifeco 2, Lifeco 3, or Lifeco 5 with a person owned or controlled directly or indirectly by the same interests (within the meaning of § 482) as Lifeco 2, Lifeco 3, or Lifeco 5 (as the case may be), the terms of such agreements satisfied the "arms-length" standard of § 482.

(j) FS 2 is a "qualified resident" of Country X under Treas. Reg. § 1.884-5 and is, and at the time of the Proposed Reorganization will be, a "qualifying person" for purposes of the income tax treaty between the United States and Country X.

Ruling

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

We conclude that the merger of US Parent 1 into US Parent 2 will not be treated as a "disposition" of the US Parent 1 equity for purposes of the branch profits tax under section 884 and Temp. Treas. Reg. § 1.884-2T(d)(5), provided that US Parent 2 makes an election under Temp. Treas. Reg. § 1.884-2T(d)(4) to increase its earnings and profits by an amount equal to the earnings and profits allocated to US Parent 1 pursuant to elections made previously. Furthermore, FS 2 attaches a statement pursuant to Temp. Treas. Reg. § 1.884-2T(d)(5)(i) to its timely filed (including extensions) federal income tax return for the taxable year in which the proposed reorganization occurs, agreeing that, upon the disposition of part or all of its equity interest in US Parent 2, it shall treat as a dividend equivalent amount for the taxable year in which the disposition occurs an amount equal to the lesser of (A) the amount realized upon such disposition or (B) the total amount of ECE&P and non-previously taxed accumulated ECE&P that was allocated from US Parent 1 to US Parent 2, except to the extent such amount was previously taken into account by FS 2 as dividends or dividend equivalent amounts for branch profits tax purposes.

We express no opinion concerning the federal tax consequences of the proposed transactions under any other provision of the Code or regulations, or concerning any conditions existing at the time of, or effects resulting from, the proposed transactions that are not specifically covered by the above rulings. In particular, we express no opinion as to whether any transactions described above are reorganizations within the meaning of § 368.

This letter ruling is directed only to the taxpayer who 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 ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction covered by this letter is completed. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this ruling letter.

Pursuant to a power of attorney on file with this office, a copy of this letter will be sent to your authorized representative.

Sincerely yours,

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Elizabeth U. Karzon
Chief, Branch 1
Office of Associate Chief Counsel
(International)