Internal Revenue Service

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Department of the Treasury
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Third Party Communication: None
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Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:CORP:B03
PLR-127069-07
Date:
September 28, 2007

LEGEND

Parent =

Foreign Parent =

Foreign Sub 1 =

Foreign Sub 2 =

Foreign Sub 3 =

x percent =

Sub 1 =

Sub 2 =

Country A =

State B =

Business C =

Business D =

Date 1 =

Date 2 =

Date 3 =

Dear :

We respond to your June 8, 2007, request for rulings as to the Federal income tax consequences of a completed transaction. Additional information was submitted in letters dated September 4, September 6, and September 27, 2007. The material information submitted for consideration is summarized below.

The rulings contained in this letter are based on 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 rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Foreign Parent is a Country A corporation with a Date 1 tax year. Foreign Parent owns all the stock of Foreign Sub 1, a Country A limited liability corporation, and Foreign Sub 2, also a Country A limited liability corporation. Foreign Parent also owned approximately x percent of the stock of Foreign Sub 3, a Country A corporation, the remainder of which was owned by the public.

Foreign Sub 2 owns all the stock of Parent, a State B corporation. Parent owned all of the stock of Sub 1, also a State B corporation. Foreign Sub 3 owns all of the stock of Sub 2, also a State B corporation.

Prior to the completed transactions described below, Foreign Parent operated Business C in a separate corporate chain from Business D. The management of Foreign Parent believed the combination of Business C with Business D would better position the group in its core markets.

On Date 2, Foreign Parent proposed a global reorganization whereby Foreign Parent would transfer the Business C, operated by Foreign Sub 1 and Sub 1, to Foreign Sub 3 for stock of Foreign Sub 3. Pursuant to the restructuring plan (Restructuring), Parent was to transfer its shares of Sub 1 to Foreign Sub 3 for Foreign Sub 3 shares, and then Sub 1 would merge with Sub 2 (the Merger). The Merger was designed to qualify as a tax free reorganization under §§ 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code. However, under Country A law, the minority public shareholders of Foreign Sub 3 had to be provided with the option to participate in the planned equity increase in Foreign Sub 3. In addition, under Country A law, Sub 1 could not participate in the Restructuring unless Parent was an existing shareholder of Foreign Sub 3.

To effectuate the Restructuring, the following steps occurred:

(i) Foreign Parent transferred stock of Foreign Sub 3 to Parent to enable Parent to participate in the Restructuring. The number of shares was based on the maximum number of shares that Parent would need to participate pro rata in the transaction assuming all or nearly all of the public shareholders would participate.

(ii) Foreign Parent and Parent entered into a Sale Purchase and Call Option Agreement (the Agreement), and Foreign Parent transferred the Foreign Sub 3 shares in exchange for their then current fair market value. The Agreement also provided that Foreign Parent would have a call option exercisable 14 days after the registration of the capital increase of Foreign Sub 3. Under the Agreement, the purchase price of the Foreign Sub 3 shares was payable on the day on which the call option price became due and payable, so that the amounts to be paid for the Foreign Sub 3 shares in the sale to Parent and under the call option would offset. If Foreign Parent did not exercise its call option in accordance with the Agreement, Parent's purchase price was due within 14 days after the registration of the Merger. All of the shares would be callable at the original purchase price.

(iii) On Date 2, Parent executed an interest bearing note (the Note) pursuant to a loan agreement to cover the purchase price of the Foreign Sub 3 stock, the call option having been delayed due to a minority shareholder lawsuit in Country A. Immediately after the minority shareholder issues were resolved, on Date 3, Foreign Parent exercised its call option. The Foreign Sub 3 shares were returned to Foreign Parent, and the Note was cancelled on Date 3.

During the period in which Parent held the Foreign Sub 3 stock, Foreign Sub 3 paid a dividend on its shares, but the dividend and call premium were credited to Foreign Parent. In connection with the Merger, Parent exercised the voting rights with respect to the Foreign Sub 3 stock, but did so only at the direction of Foreign Parent. Finally, Parent paid interest to Foreign Parent on the Note, but that interest was later credited in full by Foreign Parent during the same tax year in which the interest was paid by Parent.

The following representations have been made in connection with the transaction:

(a) The transfer of the Foreign Sub 3 stock to Parent and its return to Foreign Parent occurred as part of a single overall plan to combine Business C and Business D.

(b) Foreign Parent transferred the stock of Foreign Sub 3 to Parent solely to satisfy Country A law in order to effectuate the Merger.

(c) All events surrounding the transfer of the Foreign Sub 3 stock to Parent were reversed within the same fiscal year and will be treated by all parties as not having occurred.

Based on the information and representations submitted, we rule that, for Federal income tax purposes, the circular flows of cash and Parent's transitory ownership of Foreign Sub 3 stock will be disregarded (Rev. Rul. 83-142, 1983-2 C.B. 68).

No opinion is requested, and no opinion is expressed, about the Federal income tax consequences of the Merger, as described above. Also, no opinion is expressed about the tax treatment of the completed 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 transaction that are not specifically covered by the above ruling.

This 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.

It is important that a copy of this ruling letter be attached to the Federal income tax return of each party involved for the taxable year in which the transaction covered by this letter is consummated. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their returns that provides the date and control number of the letter ruling.

Pursuant to the power of attorney on file in this Office, a copy of this letter is being sent to your authorized representative.

Sincerely,

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Filiz A. Serbes
Chief, Branch 3
Office of Associate Chief Counsel (Corporate)

cc: