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Person To Contact:
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PLR-118747-08

In Re:

Date:
October 17, 2008

Foreign Parent =

FS 1 =

FS 2 =

US Parent 1 =

Sub 1 =

Lifeco 1 =

US Parent 2 =

Sub 2 =

Lifeco 2 =

Lifeco 3 =

Country X =

Year 1 =

Year 2 =

Year 3 =

FS 3 =

Dear

This letter replies to your letter dated April 18, 2008 requesting rulings concerning certain federal income tax consequences of a proposed transaction. The following information is provided in that letter and letters dated July 25, 2008, September 15, 2008, and October 8 and 10, 2008.

Summary of Facts

Foreign 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 that is wholly owned by Foreign Parent. 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 § 301.7701-3(a) of the Income Tax Regulations 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) of the Internal

Revenue Code and § 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 and is a member of the US Parent 1 Group.

US Parent 2 is a domestic limited liability company that has elected to be treated under § 301.7701-3(a) as a corporation for federal income tax purposes. US Parent 2 is wholly owned by Foreign Parent and its affiliates. 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. Foreign Parent acquired all of the stock of Sub 2 in Year 1 and contributed the stock of Sub 2 to US Parent 2 later in Year 1.

Lifeco 2 is a domestic life insurance company that is wholly owned by Sub 2. Lifeco 3 is a domestic life insurance company that is wholly owned by Lifeco 2. Both Lifeco 2 and Lifeco 3 are members of the US Parent 2 Group.

During Year 2 and Year 3, Lifeco 2 sold or distributed all the stock of FS 3, a Country X corporation, to Sub 2. As a result of these transactions, gains recognized by Lifeco 2 were deferred pursuant to § 1.1502-13. The "intercompany items" and the "corresponding items" arising from those transactions (collectively, the "Lifeco 2 DIT") would be taken into account (absent an applicable exception) pursuant to § 1.1502-13(d) upon Sub 2 or Lifeco 2 ceasing to be a member of the US Parent 2 Group, or the stock of FS 3 leaving the US Parent 2 group.

Proposed Transaction

Foreign Parent now has two separate chains of United States subsidiaries, resulting in inefficiencies and added expenses. To resolve this problem, Foreign Parent proposes to combine the US Parent 1 and US Parent 2 consolidated groups into one consolidated group.

In PLR 200644021, dated July 28, 2006, this office issued a private letter ruling regarding a proposed series of transactions in which US Parent 1 would merge into US Parent 2 and subsidiaries of the two US Parents would be combined. For various reasons those transactions were not consummated. The parties have revised the earlier proposed transaction as described below.

Steps (i) and (ii), below, will precede the combination of the US Parent 1 and US Parent 2 Groups. No rulings are requested with respect to either step (i) or (ii).

(i) In order to manage regulatory and other potential business issues following the proposed reorganization, Lifeco 2 may reinsure with a domestic insurance company

affiliate risks associated with certain Lifeco 2 insurance contracts. In that case, Lifeco 2 may provide additional capital to that affiliate through a capital contribution in order to increase that entity's surplus.

(ii) Foreign Parent will contribute all of its ownership interests in US Parent 2 to FS 1, and FS 1 will then contribute all of those ownership interests to FS 2. After these contributions, FS 2 will directly own ownership interests of both US Parent 1 and U.S. Parent 2.

Foreign Parent then plans to have the US Parent 1 Group combine with the US Parent 2 Group through the following transactions, which will occur on the same date and at approximately the same time, but in the order set out below (the "Proposed Restructuring"):

(iii) US Parent 1 will merge with and into US Parent 2 in a statutory merger, with US Parent 2 surviving (the "US Parent Merger"). In the US Parent Merger, FS 2 will receive additional equity interests in US Parent 2 equal to the value of its equity interests in US Parent 1.

(iv) Sub 2 will merge with and into Sub 1 in a statutory merger, with Sub 1 surviving. In order to permit Foreign Parent and its affiliates to maintain the proper tax basis under Country X tax law, Foreign Parent will cause Sub 1 to issue one new share of stock to US Parent 2.

(v) Lifeco 2 and Lifeco 3 will merge simultaneously with Lifeco 1 in statutory mergers, with Lifeco 1 surviving (the "Lifeco 1 Transaction"). In order to permit Foreign Parent and its affiliates to maintain the proper tax basis under Country X tax law, Foreign Parent will cause Lifeco 1 to issue one new share of stock to Sub 1.

After the Proposed Restructuring, US Parent 2 will continue as the common parent of a consolidated group including Sub 1 and Lifeco 1. See representations (d) and (e), below.

Representations

The taxpayer 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 income tax purposes.

(b) The US Parent Merger will constitute a reorganization within the meaning of § 368(a). The statutory mergers of Sub 2 into Sub 1 and Lifeco 2 and Lifeco 3 into

Lifeco 1 will each constitute a reorganization under § 368(a)(1). Accordingly, each will constitute a transaction to which § 381(a)(2) applies.

(c) US Parent 1, Sub 1, and Lifeco 1 are each an "eligible corporation" within the meaning of § 1.1502-47 with respect to the US Parent 1 Group, and US Parent 2, Sub 2, Lifeco 2, and Lifeco 3 are each an "eligible corporation" within the meaning of § 1.1502-47 with respect to the US Parent 2 Group.

(d) The US Parent Merger and related transactions will constitute a "reverse acquisition" within the meaning of § 1.1502-75(d)(3).

(e) After the Proposed Restructuring, US Parent 2 will continue as the common parent of the new consolidated group.

(f) After the Proposed Restructuring, each of US Parent 2, Sub 1, and Lifeco 1 will meet the requirements provided in subparagraphs (A), (B), and (C) of § 1.1502-47(d)(12)(i) with regard to the new consolidated 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 § 1.1502-47(d)(12)(i).

(g) Lifeco 2 and Lifeco 3 have entered into all of their insurance agreements, including reinsurance treaties, in the ordinary course of business.

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

(i) The transfer of the assets and liabilities of Lifeco 2 and Lifeco 3 to Lifeco 1 as part of the Lifeco 1 Transaction will constitute a "special acquisition" of Lifeco 1 within the meaning of § 1.1502-47(d)(12)(viii).

Rulings

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

(1) Following the Proposed Restructuring, the surviving group as determined under § 1.1502-75(d)(3) (with US Parent 2 as the common parent) will be treated as the terminating group under § 1.1502-13(j)(5), and US Parent 2 and the successors to Sub 2, Lifeco 2, and Lifeco 3 will be treated as includible members of the new consolidated group immediately after the Proposed Restructuring. Accordingly, the Lifeco 2 DIT will continue to be deferred following the Proposed Restructuring.

(2) For purposes of applying § 1.1502-47(d)(12)(viii)(A) and (C) to Lifeco 1 following the Lifeco 1 Transaction, the amount of the insurance reserves and premiums of Lifeco 1 attributable to the "special acquisitions" by Lifeco 1 of the assets and liabilities of Lifeco 2 and Lifeco 3 will be determined by reference to the insurance reserves and premiums attributable to the insurance agreements, including any reinsurance treaties, that have been entered into by Lifeco 2 and Lifeco 3 at the time of the Lifeco 1 Transaction, that are in effect at the time of the Lifeco 1 Transaction, and that continue in effect during the relevant measurement period or that continue to be in effect at the relevant measurement date.

(3) In the event that any insurance agreement, including any reinsurance treaty, to which Lifeco 2 or Lifeco 3 is a party is assumed by Lifeco 1 in the Lifeco 1 Transaction and, in the ordinary course of Lifeco 1's business, is later amended or modified by Lifeco 1 to permit the reinsurance of additional insurance contracts issued by the relevant ceding company, the amount of insurance reserves and premiums attributable to these additional insurance contracts will not be considered to relate to a "special acquisition" by Lifeco 1 within the meaning of § 1.1502-47(d)(12)(viii).

(4) For purposes of applying § 1.1502-47(d)(12)(viii)(B) to to Lifeco 1 following the Lifeco 1 Transaction, the amount of assets of Lifeco 1 attributable to the "special acquisitions" by Lifeco 1 of the assets and liabilities of Lifeco 2 and Lifeco 3 will be determined by reference to all of the assets held by Lifeco 2 and Lifeco 3 at the time of the Lifeco 1 Transaction, transferred to Lifeco 1 in that transaction, and held by Lifeco 1 during the relevant measurement period or on the relevant measurement date, provided that where (i) Lifeco 1 acquires an asset following the Lifeco 1 Transaction other than in the ordinary course of its business and (ii) that asset acquisition is attributable to, or is otherwise related to, a disposition of an asset previously held by Lifeco 2 or Lifeco 3 at the time of the Lifeco 1 Transaction, the newly acquired asset will be considered an asset previously held by Lifeco 2 or Lifeco 3 (as the case may be) to the extent of the relinquished asset's value at the time of disposal of that asset.

(5) For purposes of applying § 1.1502-47(d)(12)(viii)(C) to Lifeco 1 following the Lifeco 1 transaction, the term "premiums" used in connection with any insurance agreement, including any reinsurance treaty, to which Lifeco 1 is (or any predecessor was) a party will mean (a) the "gross amount of premiums and other consideration" as defined in § 803(b)(1), including any negative modco reserve adjustment, less (b) the sum of (i) any return premiums, including any experience refund, positive modco reserve adjustment, and other policyholder dividend or reimbursement of any policyholder dividend (in each case attributable to any indemnity reinsurance agreement) and (ii) any consideration payable pursuant to any indemnity reinsurance agreement.

(6) For purposes of applying § 1.1502-47(d)(12)(viii)(C) to Lifeco 1 following the Lifeco 1 Transaction, the term "last taxable year of the base period" means the taxable

year immediately preceding the group's taxable year for which the consolidated return and the determination of eligibility for Lifeco 1 is made.

(7) For purposes of § 1.1502-47(d)(12)(viii)(A), the term "insurance reserves" means "total reserves" as defined in § 816.

(8) For purposes of § 1.1502-47(d)(12)(viii), determinations of disproportionate asset acquisitions are made by taking into account only those factors that are attributable to "special acquisitions" occurring during the relevant base period.

Caveats

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 (a) whether any transactions described above are reorganizations within the meaning of § 368, and (b) the consequences of the US Parent Merger for purposes of computing the branch profits tax liability of FS 2 or any other entity under § 884.

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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Michael J. Wilder
Senior Technician Reviewer, Branch 1
Office of Associate Chief Counsel
(Corporate)