Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

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CC:CORP:1
PLR-125488-13

Date:
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LEGEND

Taxpayer =

M-1 =

Corporation A =

HoldCo =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Business A =

Business B =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

Date 8 =

Dear :

This letter responds to a letter dated May 29, 2013 requesting rulings as to the Federal income tax consequences of a transaction described in detail below. The information submitted in the request 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.

STATEMENT OF FACTS

Taxpayer is the common parent of a consolidated group (Parent Group). Parent Group files consolidated US federal income tax returns on a calendar-year basis, and all of the members of the Parent Group are accrual method taxpayers. Taxpayer is owned by a privately held foreign entity and is engaged in multiple lines of business, including Business A and Business B. Taxpayer owns 100% of the outstanding stock of M-1.

From Date 1 until Date 5, Corporation A was a publicly traded holding company and the common parent of a consolidated group (Corporation A Group). Corporation A Group was engaged in multiple lines of business, including Business B. During that period, Corporation A owned all of the outstanding stock of Sub 1, a holding company, which owned all of the outstanding stock of Sub 2. Sub 2 owned all of the outstanding stock of Sub 3. Corporation A also owned all of the outstanding stock of Sub 4, which was engaged solely in Business B.

On Date 5, M-1 acquired all of the stock of Corporation A (Corporation A Acquisition). The Corporation A Acquisition terminated the Corporation A Group and caused all of its former members to immediately become members of Parent Group. All of the relevant members of Corporation A Group immediately joined the Parent Group.

COMPLETED INTERCOMPANY TRANSACTIONS

As a result of an intercompany distribution of Sub 3 stock by Sub 2 to Sub 1 prior to Date 5, Sub 2 had not yet taken into account an intercompany loss under the rules of Reg. § 1.1502-13 (the Distribution). The Distribution was treated as a taxable distribution under section 301 and Reg. § 1.1502-13(f)(2). At the time of the Distribution, Sub 2's adjusted basis in the stock of Sub 3 was greater than the fair market value of the Sub 3 stock, and Sub 2 realized a loss that was not taken into account under Reg. § 1.1502-13 (the Intercompany Loss).

On Date 4, Sub 1 liquidated into Corporation A in a tax-free liquidation under section 332 (the Sub 1 Liquidation). As a result of the Sub 1 Liquidation, Corporation A succeeded to Sub 1's ownership of, and adjusted basis, in the stock of Sub 3, and Sub 2 continued to account for the Intercompany Loss in accordance with Reg. § 1.1502-13(j)(2).

On Date 6, Taxpayer's management liquidated Sub 3 into Corporation A in a tax-free liquidation under section 332 (the Sub 3 Liquidation). The Sub 3 Liquidation eliminated Sub 3's stock, the property with respect to which Sub 2 was accounting for the Intercompany Loss. As a result, the Sub 2 Intercompany Loss became a noncapital, nondeductible amount.

On Date 7, Taxpayer decided to put Business B "on the market." Between Date 7 and Date 8, Taxpayer's management completed the following transactions, in no particular order, to prepare for the sale of Business B:

(i) Sub 2 converted into a disregarded, single-member limited liability company treated as a tax-free liquidation under section 332 (Sub 2 Liquidation);
(ii) Sub 4 converted into a disregarded, single-member limited liability company (the Sub 4 Conversion);
(iii) Corporation A was reorganized in a transaction treated as described in section 368(a)(1)(F), becoming known as HoldCo (the Corporation A Reorganization); and
(iv) Corporation A, now HoldCo, distributed all of the business lines other than Business B to M-1 so that only Business B was included in the sale (HoldCo Distribution).

After these transactions were consummated, Taxpayer sold HoldCo to an unrelated buyer on Date 8 (the Sale Transaction). At the time of the Sale Transaction, HoldCo held nothing but Business B.

The "Internal Restructuring Transactions" consisted of: (1) the Distribution; (2) the Sub 1 Liquidation; (3) the Sub 3 Liquidation; (4) the Sub 2 Liquidation; (5) the Sub 4 Conversion; (6) the Corporation A Reorganization; and (7) the HoldCo Distribution.

REPRESENTATIONS

Taxpayer makes the following representations, regarding the Internal Restructuring Transactions and the Sale Transaction:

(a) The corporations treated as members of the Corporation A Group (including Sub 1 until the Sub 1 Liquidation, and Sub 3 until the Sub 3 Liquidation), and the corporations treated as members of the Parent Group (including Sub 2 until the Sub 2 Liquidation), properly composed respective consolidated groups for the periods relevant to this Ruling Request.

(b) The Distribution resulted in Sub 1 taking into account no gross income under Reg. § 1.1502-13(f)(2)(ii), Sub 1 taking a fair market value basis in the stock of Sub 3 under section 301(d), and Sub 2 realizing a loss under Reg. § 1.1502-13(f)(2)(iii) that was not yet taken into account under Reg. § 1.1502-13.

(c) The Sub 1 Liquidation was a transaction under sections 332 and 337(a), and it did not result in any of the Intercompany Loss being taken into account.

(d) The Corporation A Acquisition terminated the Corporation A Group, and as a result of Reg. § 1.1502-13(j)(5), it did not result in any of the Sub 2 Intercompany Loss being taken into account.

(e) The Sub 3 Liquidation was a transaction under sections 332 and 337(a), and resulted in the Intercompany Loss being treated under Reg. § 1.1502-13(c) as a noncapital, nondeductible amount.

(f) The Sub 2 Liquidation was a transaction to which sections 332 and 337(a) applied.

(g) Corporation A's transfer of its assets to HoldCo was a transaction described in section 368(a)(1)(F).

(h) The effects of the Distribution have not previously been reflected, directly or indirectly, on any Corporation A Group or any Parent Group consolidated US federal income tax return.

(i) Neither the Corporation A Group nor the Parent Group has derived, and no taxpayer will derive, any US federal income tax benefit from the Distribution, or from the Liquidations that eliminated the parties to the Distribution for US federal income tax purposes and resulted in redetermination of the Intercompany Loss as a noncapital, nondeductible amount (including any adjustment to basis in member stock under Reg. § 1.1502-32).

RULINGS

Based solely on the facts and representations submitted, we rule as follows:

The Intercompany Loss taken into account by Sub 2 under Reg. § 1.1502-13(c)(1), as a noncapital, nondeductible amount, is not taken into account in computing the earnings and profits of any Parent Group member, and it is not treated as a noncapital, nondeductible amount for purposes of Reg. § 1.1502-32(b)(2)(iii) by any Parent Group member. (Reg. § 1.1502-13(b)(6) and (c)(1)).

CAVEATS

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, including the Internal Restructuring Transactions or the Sale Transaction.

PROCEDURAL STATEMENTS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. A copy of this letter must be attached to any income tax return to which it is relevant. 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 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,

Lawrence M. Axelrod
Special Counsel to the Associate Chief Counsel
(Corporate)