Internal Revenue Service

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Washington, DC 20224

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Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:PSI:03
PLR-109643-17

Date:
August 04, 2017

X =

Y =

Z =

W =

State =

Date =

Dear :

This letter responds to a letter dated March 9, 2017, and subsequent correspondence, submitted on behalf of X, requesting rulings under the Internal Revenue Code (Code).

FACTS

The information submitted states that X is a State limited liability company that is classified as a partnership for federal tax purposes. X was formed on Date. X has two managing members: Y, a State limited liability company that is classified as a corporation for federal tax purposes, and Z, a State limited liability company that is

disregarded as an entity separate from its owner for federal tax purposes. Z is ultimately wholly owned by W, a State corporation. The other interests in X are non-managing member interests owned either indirectly by W (including through subsidiaries of Z) or by private investors.

X plans to convert to a State limited partnership in accordance with State law (the "Conversion"). Before the Conversion, Y, Z, and one of Z's subsidiaries will each form a single-member limited liability company that will be disregarded as an entity separate from its respective owner for federal tax purposes (the "Disregarded Entities"). In connection with the Conversion, Z and Z's subsidiary will each contribute all of its interest in X to its respective Disregarded Entity. Y will contribute a portion of its interest in X to its Disregarded Entity. The three Disregarded Entities will become general partners of X; for federal tax purposes, their regarded owners will be treated as the general partners of X.

X represents the following:

1. The limited partnership agreement that will replace X's limited liability company agreement will be substantively identical to the document it is replacing, though it will reflect the formation of the Disregarded Entities and their role as general partners in X as part of the Conversion.

2. The balances in each partners' capital accounts immediately after the Conversion will be the same as they were immediately before the Conversion.

3. Each partner's share of liabilities of X immediately after the Conversion will be the same as it was immediately before the Conversion.

4. X will continue to carry on the business operations conducted before the Conversion, and will retain the same method of accounting and accounting period.

5. Each partner's total percentage interest in X's profits, losses, and capital after the Conversion will be the same as that partner's percentage interest in X's profits, losses and capital before the Conversion, and the allocation of tax items will also remain unchanged.

6. There will be no change in any partner's share of value, gain, or loss associated with the partnership's unrealized receivables (within the meaning of section 751(c)) or inventory items (within the meaning of section 751(d)) in connection with the Conversion.

7. The Conversion will not be treated as a revaluation event under § 704(b) or the regulations thereunder.

8. X has not issued any profits interest in the two years preceding the date of the Conversion.

9. The § 704(b) book basis of the property of X securing nonrecourse debt exceeds the amount of such debt.

X requests rulings that (1) the Conversion will not cause X or its members to recognize taxable income, gain, or loss; and (2) the Conversion will not cause X to be treated as an association taxable as a corporation.

LAW AND ANALYSIS

Section 708(a) provides that an existing partnership is considered as continuing if it is not terminated. Under § 708(b), a partnership is considered as terminated only if: (1) no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership; or (2) within a 12-month period, there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits.

Section 1.708-1(b)(2) of the Income Tax Regulations provides, in part, that a contribution of property to a partnership does not constitute a sale or exchange for purposes of § 708(b)(1)(B).

Rev. Rul. 84-52, 1984-1 C.B. 157, addressed the federal income tax consequences of a conversion of a general partnership interest into a limited partnership interest in the same partnership. In Rev. Rul. 84-52, X was formed as a general partnership with equal partners A, B, C, and D. The partners proposed to convert the general partnership into a limited partnership, with A and B as limited partners, and C and D as both general partners and limited partners. Each partner's total percentage interest in the partnership's profits, losses, and capital would remain the same after the conversion, and the general partnership's business would continue. Rev. Rul. 84-52 held that even though A, B, C, and D were exchanging their interests in a general partnership for interests in a limited partnership, no gain or loss would be recognized.

Similarly, Rev. Rul. 95-37, 1995-1 C.B. 130, examined the conversion of a domestic partnership into a domestic limited liability company classified as a partnership for federal tax purposes. Rev. Rul. 95-37 held that such a conversion is treated as a partnership-to-partnership conversion that is subject to the principles of Rev. Rul. 84-52. Rev. Rul. 95-37 also stated that the same holdings would apply if the conversion had been of an interest in a domestic limited liability company that is classified as a partnership for federal tax purposes into an interest in a domestic partnership.

Section 301.7701-3(a) of the Procedure and Administration Regulations provides, in part, that a business entity that is not classified as a corporation under § 301.7701-2(b)(1), (3), (4), (5), (6), (7), or (8) (an eligible entity) can elect its classification for federal tax purposes. An eligible entity with at least two members can elect to be classified as either an association or a partnership, and an eligible entity with

a single owner can elect to be classified as an association or to be disregarded as an entity separate from its owner.

Section 301.7701-3(b)(1) provides that unless the entity elects otherwise, a domestic eligible entity is (i) a partnership if it has two or more members; or (ii) disregarded as an entity separate from its owner if it has a single owner.

CONCLUSION

Based solely on the information submitted and representations made, we conclude that the Conversion will not cause a termination of X, and that neither X nor its members will recognize taxable income, gain, or loss upon the Conversion. We further conclude that the Conversion will not cause X to be treated as an association taxable as a corporation.

Except as specifically ruled above, we express or imply no opinion concerning the federal tax consequences of the transaction described above under any other provision of the Code.

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.

The ruling contained in this letter is 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 ruling request, it is subject to verification on examination.

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

Sincerely,

Holly Porter
Chief, Branch 3
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2):
Copy of this letter
Copy for § 6110 purposes

cc: