Internal Revenue Service

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Department of the Treasury
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Date:
January 17, 2025

LEGEND

Parent =

Parent Group =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

DRE 1 =

Foreign Sub 1 =

Foreign Partnership =

Country A =

Country B =

a =

b =

c =

d =

e =

f =

g =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Year 5 =

Dear :

This letter responds to your letter dated July 14, 2023, requesting rulings on certain federal income tax consequences of proposed transactions (collectively, the "Proposed Transactions"). The material information submitted in that request and in subsequent correspondences is summarized below.

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.

SUMMARY OF FACTS

In Year 1, Parent was a domestic corporation and the common parent of the Parent Group. Parent directly owned 100 percent of the stock of Sub 1, a domestic corporation. Sub 1, in turn, owned 100 percent of the stock in both Sub 2 and Sub 3, both domestic corporations. Sub 1, Sub 2, and Sub 3 were members of the Parent Group. Sub 1 and Sub 2 owned f percent and g percent, respectively, of the issued and outstanding membership interests in Foreign Sub 1, a Country A eligible entity treated as a corporation for U.S. federal income tax purposes.

In Year 1, Sub 1 sold all of its Foreign Sub 1 membership interests, representing f percent of the total Foreign Sub 1 membership interests (the "Foreign Sub 1 Transferred Interests"), to Sub 3 in exchange for a $a note (the "Year 1 Sale"). The Year 1 Sale was an intercompany transaction under Treas. Reg. §1.1502-13(b)(1) where Sub 1 was the selling member and Sub 3 was the buying member. Accordingly, Sub 1 had an intercompany item equal to the difference between the fair market value of the consideration received and the tax basis in the property exchanged (the "DIG"). At the time of the Year 1 Sale, Sub 1 had a tax basis in the Foreign Sub 1 Transferred Interests of $b. The amount of the DIG therefore equaled $c.

In Year 2, Foreign Sub 1 acquired from Sub 3 various related foreign entities in transactions that Parent determined constituted section 368(a)(1)(D) reorganizations for U.S. federal income tax purposes.

Between Year 2 and Year 3, Sub 2 converted to a domestic limited liability company, DRE 1, that was treated as a disregarded entity for U.S. federal income tax purposes. Then Sub 1 and Sub 3 formed Foreign Partnership, a Country B partnership that was treated as a partnership for U.S. federal income tax purposes. Sub 1 contributed DRE 1 in exchange for d percent of the membership interests of Foreign Partnership, while Sub 3 contributed other assets and liabilities in exchange for the remaining e percent of the membership interests of Foreign Partnership. After this internal restructuring, Sub 3 continued to own f percent of the outstanding membership interests of Foreign Sub 1,

and Foreign Partnership, through DRE 1, owned the remaining g percent of the outstanding membership interests of Foreign Sub 1.

In Year 3, Sub 3 and Foreign Partnership (for U.S. federal income tax purposes) contributed their interests in Foreign Sub 1 to a newly formed domestic corporation, Sub 4 (the "Year 3 Contribution"). Subsequently, Foreign Sub 1 elected to be treated as a disregarded entity for U.S. federal income tax purposes (together with the Year 3 Contribution, the "Year 3 Reorganization"). Parent reported the Year 3 Reorganization as a tax-free reorganization pursuant to section 368(a)(1)(F). In Year 4, Foreign Sub 1 was legally dissolved.

Parent determined that the Sub 4 shares held by Sub 3 constitute a successor asset to the Foreign Sub 1 Transferred Interests under Treas. Reg. §1.1502-13(j)(1). Following the Year 3 Reorganization, the DIG continued to be reflected in the difference between Sub 3's basis in the Sub 4 stock and the basis the Sub 4 stock would have if Sub 1 and Sub 3 were divisions of a single corporation.

In Year 5, and immediately prior to the Proposed Transactions described below, Parent is the common parent of the Parent Group. Parent indirectly owns 100 percent of the stock of Sub 1. Sub 1 owns 100 percent of the stock of Sub 3, and each is a member of the Parent Group. Sub 1 and Sub 3 own d percent and e percent, respectively, of the membership interests of Foreign Partnership. Foreign Partnership owns 100 percent of the membership interests in DRE 1. Sub 3 and DRE 1 own f percent and g percent, respectively, of the stock of Sub 4.

The DIG has not been taken into account under the rules of Treas. Reg. §1.1502-13.

PROPOSED TRANSACTIONS

Parent plans to undertake the following Proposed Transactions in the order specified below.

1. Sub 3 will convert to an LLC and become a disregarded entity of Sub 1 for U.S. federal income tax purposes (the "Sub 3 Conversion").

2. Sub 4 will convert to an LLC and become a disregarded entity of Sub 1 for U.S. federal income tax purposes (the "Sub 4 Conversion").

REPRESENTATIONS

The Parent Group has made the following representations with respect to the rulings requested:

1. The Parent Group have filed or will file all consolidated returns consistent with the treatment of the Proposed Transactions described below.

2. The effects of the DIG have not previously been reflected, directly or indirectly, on the Parent Group's consolidated return.

3. The Parent Group has not derived, and no taxpayer will derive, any federal income tax benefit from the Year 1 Sale that gave rise to the DIG or the redetermination of the DIG (including any adjustment to basis in member stock under Treas. Reg. §1.1502-32).

4. If an excess loss account ("ELA") would have existed in the Sub 4 stock absent the Year 1 Sale, the Parent Group did not implement any steps that would have triggered such ELA.

5. Except for the transactions described above, no other transactions subsequent to the Year 1 Sale would have impacted the tax basis in the Foreign Sub 1 Transferred Interests.

6. Prior to the Year 1 Sale, Sub 1 had tax basis in its membership interests in Foreign Sub 1 of $b.

7. At the time of the Proposed Transactions, all of the relevant entities will be solvent for U.S. federal income tax purposes (i.e., the fair market value of their assets will exceed the amount of their liabilities).

8. Sub 1 will become a successor person as defined in Treas. Reg. §1.1502-13(j)(2) to Sub 3 as a result of the Sub 3 Conversion.

9. The stock of Sub 4 deemed distributed in the Year 3 Reorganization is considered a successor asset to the Foreign Sub 1 Transferred Interests pursuant to Treas. Reg. §1.1502-13(j)(1).

10. The Sub 3 Conversion will qualify as a complete liquidation to which sections 332 and 337(a) apply.

11. The Sub 4 Conversion will qualify as a complete liquidation to which sections 332 and 337(a) apply.

RULINGS

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

1. The Sub 4 Conversion will require Sub 1 to take into account the DIG under the matching rule of Treas. Reg. §1.1502-13(c).

2. The DIG will be redetermined to be excluded from Sub 1's gross income for the Parent Group's consolidated return year that includes the day of the Sub 4 Conversion under Treas. Reg. §1.1502-13(c)(6)(ii)(D).

3. The amount of the DIG that is redetermined to be excluded from gross income will not be taken into account as earnings and profits of any member and will not be treated as tax-exempt income under Treas. Reg. §1.1502-32.

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 under any provision of the Internal Revenue Code (the "Code") and the regulations thereunder. Furthermore, no opinion is expressed or implied with respect to the appropriate amount of the DIG that is redetermined to be excluded from gross income under Treas. Reg. §1.1502-13(c)(6)(ii)(D).

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.

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

Sincerely,

Katherine H. Zhang
Senior Counsel, Branch 5
Office of Associate Chief Counsel (Corporate)

cc: