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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

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CC:CORP:5

PLR-115796-24

Date:

March 10, 2025

Legend

Parent =

New Parent =

Sub 1 =

Sub 2 =

Sub 3 =

Sub 4 =

Sub 5 =

DRE 1 =

Sub 6 =

DRE 2 =

Sub 7

DRE 3 =

DRE 4 =

DRE 5 =

Business A =

State A =

State B =

Date A =

State A Regulator =

A Group Members =

B Group Members =

Agreements =

Section A Organization =

Dear :

This letter responds to your letter dated September 6, 2024, requesting rulings on certain federal income tax consequences of a series of transactions. The information provided in that letter and in subsequent correspondence 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 on examination.

This letter is issued pursuant to Rev. Proc. 2024-1, 2024-1 I.R.B. 1, regarding one or more issues under sections 351 and 368 of the Internal Revenue Code (the “Code”) and the application of sections 833 and 1502 of the Code. This office expresses no opinion as to any issues not specifically addressed by the rulings below.

Summary of Facts

Parent is organized as a nonprofit, nonstock, mutual benefit corporation pursuant to State A law. Parent is governed by a board of directors (the “Parent Board”) with general corporate authority that includes the sole right to vote, control and manage property, make key decisions as to corporate matters, and otherwise perform the fundamental governance role of the board of directors of a for-profit stock corporation. The Parent Board is self-perpetuating (that is, members of the Parent Board elect their successors). Under State A law, if a corporation has no members and has not ascribed voting rights to anyone, any action that would require approval by a majority of all members or approval by the members requires only the approval of the board of directors. Under State A law, Parent is prohibited from making distributions except in dissolution.

The Parent Bylaws provide for two groups of persons who are referred to as “members,” the A Group Members and the B Group Members. Neither A Group Members nor B Group Members have the right to vote, nor the right, title or interest in the property of Parent. The Parent Bylaws also provide that Parent shall conduct and carry on its business without profit to any of its members and that no member of Parent shall be or become entitled at any time to receive any assets, property, income or earnings from Parent or to profit therefrom in any manner.

Parent is an organization subject to tax under sections 501(m) and 833 of the Code. Prior to the Restructuring (defined below), Parent also was the common parent of an affiliated group of corporations that join in the filing of a consolidated federal income tax return (the “Parent Group”).

Prior to the Restructuring:

- i. Parent owned all the stock in each of Sub 1, Sub 2, Sub 3, and Sub 4;
- ii. Sub 4 owned all the stock in Sub 5 and all the interests in DRE 1; and
- iii. DRE 1 owned all the stock in Sub 6.

The Parent Group is engaged in Business A. Parent and certain of its subsidiaries are regulated by the State A Regulator.

The Restructuring

Parent desired to restructure its organization to provide for a new parent holding company that would, in turn, own sector-specific holding entities, which Parent believes will provide substantial flexibility to expand and monetize the value of Parent's ancillary services and other offerings (the "Restructuring"). State A law permits an entity such as Parent to restructure its assets and operations through creation of subsidiaries, issuance of membership interests, and the transfer of assets. After the Restructuring, Parent remains subject to regulation by the State A Regulator.

In furtherance of the Restructuring that occurred on Date A, Parent implemented the following steps as reviewed and approved by the State A Regulator:

1. At the direction of the Parent Board, New Parent was incorporated as a nonprofit, nonstock, taxable corporation, outside of the Parent Group. The Parent Board selected the initial board of directors of New Parent, which was comprised of the same individuals as the Parent Board through the completion of the Restructuring.
2. Parent formed DRE 2 and contributed certain assets (the "Parent Assets") to DRE 2.
3. Parent formed Sub 7 and contributed all its equity interests in Sub 3 to Sub 7 (the "Subsidiary Exchange").
4. Parent formed DRE 3 and contributed certain assets (the "DRE 4 Assets") to DRE 3.
5. DRE 3 formed DRE 4 and contributed the DRE 4 Assets to DRE 4.
6. Parent amended its articles of incorporation to reflect that it is a nonprofit mutual benefit corporation with members, and that its members will be as set forth in its bylaws. Parent amended its bylaws to reflect that it is a nonprofit mutual benefit corporation with one corporate member within the meaning of applicable State A law, and that its sole corporate member is New Parent (the amendment of the articles of incorporation, together with the amendment to the bylaws, the "Amendments"). In connection with the Amendments, the taxpayer deemed the following to have occurred:
 - a. All the proprietary interests in Parent (the "Parent Interests") were deemed transferred to New Parent in a deemed exchange for all the proprietary interests in New Parent (the "New Parent Interests," and the exchange, the "Parent Exchange").

- b. Subsequently, Parent was deemed to issue its sole corporate membership interest (the “Parent Corporate Interest”) to New Parent in exchange for all of the Parent Interests deemed held by New Parent (the “Parent Reorganization”).
7. New Parent formed DRE 5.
8. For no consideration, Parent transferred all its equity interests in each of DRE 2, Sub 7, and DRE 3 to DRE 5 (the “Parent Transfer”).
9. For no consideration, Sub 4 transferred all its ownership interest in DRE 1 to DRE 5 (the “Sub 4 Transfer”). Parent has determined that none of the transfers described in Steps 8 and 9 qualify for nonrecognition treatment under section 355 or any other provision of the Code. Accordingly, any gain or loss arising from the transfers in Steps 8 and 9 will be accounted for under § 1.1502-13.
10. DRE 5 distributed all its interests in DRE 1, DRE 2, Sub 7, and DRE 3 (collectively, the “HoldCos”) to New Parent. The HoldCos amended their operating agreements to reflect New Parent as their sole owner.
11. DRE 2 distributed the Parent Assets to New Parent.
12. Parent amended the Parent Bylaws to substitute DRE 2 as its sole corporate member.

Following the Restructuring, members of the Parent Group will enter into the Agreements.

Representations

Parent has made the following representations with respect to the Restructuring:

A. With Respect to the Restructuring

1. Each transaction step of the Restructuring occurred under a plan formulated and approved before the Restructuring took place.
2. The Restructuring was motivated, in whole or substantial part, by one or more bona fide non-federal income tax purposes as described in taxpayer’s request for ruling.
3. Immediately after the Parent Exchange, New Parent received all rights with respect to the Parent Interests deemed transferred in the Parent Exchange.

4. New Parent will treat its interests in Parent as stock for all purposes of the Code and the Treasury regulations thereunder.
5. Prior to the Parent Exchange, the Parent Board had the sole right to vote, control and manage property, and make key decisions as to corporate matters of Parent.
6. Pursuant to the Parent Bylaws, the A Group Members and the B Group Members do not have the right to vote nor any right, title, or interest in or to any property assets of Parent.
7. Immediately following the Parent Reorganization, the Parent Corporate Interest provided New Parent with: (i) the sole right to elect, retain, and/or dismiss members of the Parent Board; and (ii) control of dissolution/capital transaction decisions and amendments to Parent's articles of incorporation and bylaws.
8. Following the Restructuring, and each transaction step thereto, New Parent and its direct and indirect subsidiaries (which includes Parent) will continue to own substantially all the assets and liabilities that were held by Parent and its direct and indirect subsidiaries prior to the Restructuring, and each transaction step thereto.
9. Following the Restructuring, and each transaction step thereto, New Parent and its direct and indirect subsidiaries (which includes Parent) will continue to conduct the business operations that Parent and its direct and indirect subsidiaries conducted prior to the Restructuring, and each transaction step thereto.
10. The Parent Group will take into account all items of income, gain, loss, deduction, and credit resulting from the Restructuring as required by the applicable intercompany transaction regulations (see §§ 1.1502-13 and 1.1502-14 as in effect before the publication of § 1.1502-13 in T.D. 8597, 1995-2 C.B. 147, and as currently in effect).
11. No party to the Restructuring is under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)).
12. For purposes of State A law, Parent is the same legal entity both before and after the Restructuring.

B. With Respect to Section 833

13. Parent was exempt from tax for its taxable year beginning before January 1, 1987.

14. No material change occurred in the operations of Parent or in its structure after August 16, 1986, up to Date A.
15. Parent qualifies as a Section A Organization within the meaning of section 833.
16. Parent's Business A plans continue as the contractual obligations of Parent and B Group Members of Parent continue to be enrollees of Parent following the Restructuring.
17. New Parent does not qualify as an existing Section A Organization within the meaning of section 833.
18. New Parent will not seek to be classified as an organization exempt from federal income tax pursuant to section 501(a), but, instead, will be subject to federal income tax as a holding company for one or more organizations described in sections 501(m) and 833.
19. New Parent expects to remain a State B nonprofit, nonstock corporation and Parent expects to remain a State A nonprofit, mutual benefit corporation and New Parent or Parent have no current plans to legally change to for-profit State A or State B corporations.
20. The Restructuring did not result in any change to the high-risk coverage offered to the members of Parent.

C. With Respect to the Subsidiary Exchange

21. No stock or securities were issued for services rendered to or for the benefit of Sub 7 in connection with the Subsidiary Exchange.
22. No stock or securities were issued for indebtedness of Sub 7 that is not evidenced by a security or for interest on indebtedness of Sub 7 which accrued on or after the beginning of the holding period of Parent for the debt.
23. The Subsidiary Exchange was not the result of the solicitation by a promoter, broker, or investment house.
24. Parent did not retain any rights in the property transferred to Sub 7 in the Subsidiary Exchange.

25. No debt was assumed as part of the Subsidiary Exchange.
26. The adjusted basis and the fair market value of the assets transferred by Parent to Sub 7 were, in each instance, equal to or exceeded the sum of the liabilities assumed, if any, by Sub 7 plus any liabilities, if any, to which the transferred assets were subject.
27. There was no prior indebtedness between Sub 7 and Parent and there was no indebtedness created in favor of Parent as a result of the Subsidiary Exchange.
28. The Subsidiary Exchange occurred under a plan agreed upon before the steps of the Subsidiary Exchange in which the rights of the parties were defined.
29. All exchanges in connection with the Subsidiary Exchange occurred on the same date.
30. The aggregate fair market value of the assets of Parent held by Sub 7 immediately after the Subsidiary Exchange equaled or exceeded Sub 7's aggregate basis in such assets at that time.
31. There is no plan or intention on the part of Sub 7 to redeem or otherwise reacquire any stock or indebtedness issued in the Subsidiary Exchange.
32. Taking into account any issuance of additional shares of the stock of Sub 7; any issuance of stock for services; the exercise of any stock rights of Sub 7 stock, warrants, or subscriptions; a public offering of transferee stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of the transferee received in the exchange, Parent was in "control" of Sub 7 within the meaning of section 368(c) immediately after the Subsidiary Exchange.
33. Parent was deemed to receive stock, securities, or other property approximately equal to the fair market value of the property transferred to Sub 7 or for services rendered to or for the benefit of Sub 7.
34. Sub 7 will remain in existence and retain and use the property transferred to it in a trade or business.
35. There is no plan or intention by Sub 7 to dispose of the transferred property other than in the normal course of business operations.

- 36. Parent and Sub 7 each paid their own expenses, if any, incurred in connection with the Subsidiary Exchange.
- 37. Sub 7 is not an investment company within the meaning of section 351(e)(1) and § 1.351-1(c)(1)(ii).
- 38. Sub 7 is not a “personal service corporation” within the meaning of section 269A.

D. With Respect to the Parent Exchange

- 40. No stock or securities were issued for services rendered to or for the benefit of New Parent in connection with the Parent Exchange.
- 41. No stock or securities were issued for indebtedness of New Parent that is not evidenced by a security or for interest on indebtedness of New Parent which accrued on or after the beginning of the holding period of the Parent Board for the debt.
- 42. The Parent Exchange was not the result of the solicitation by a promoter, broker, or investment house.
- 43. The Parent Board did not retain any rights in the property transferred to New Parent in the Parent Exchange.
- 44. No debt was assumed in connection with the Parent Exchange.
- 45. The adjusted basis and the fair market value of the assets transferred by the Parent Board to New Parent were, in each instance, equal to or exceeded the sum of the liabilities assumed by New Parent plus any liabilities to which the transferred assets were subject.
- 46. There was no prior indebtedness between New Parent and the Parent Board and there was no indebtedness created in favor of the Parent Board as a result of the Parent Exchange.
- 47. The Parent Exchange occurred under a plan agreed upon before the Parent Exchange in which the rights of the parties are defined.
- 48. All exchanges in connection with the Parent Exchange occurred on the same date.

49. There is no plan or intention on the part of New Parent to redeem or otherwise reacquire any stock or indebtedness issued in the Parent Exchange.
50. Taking into account any issuance of additional shares of the stock of New Parent; any issuance of stock for services; the exercise of any stock rights of New Parent stock, warrants, or subscriptions; a public offering of transferee stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of the transferee to be received in the exchange, the Parent Board was in “control” of New Parent within the meaning of section 368(c) immediately after the Parent Exchange.
51. The Parent Board was deemed to receive stock, securities, or other property approximately equal to the fair market value of the property transferred to New Parent or for services rendered or to be rendered for the benefit of New Parent.
52. New Parent will remain in existence and retain and use the property transferred to it in a trade or business.
53. Except for Parent’s issuance of its corporate membership interest to New Parent in deemed exchange for Parent Interests held by New Parent as a result of Step 6 above, and New Parent’s transfer of Parent’s Corporate Interest to DRE 2, a disregarded entity, as a result of Step 12, there is no plan or intention to dispose of the transferred property other than in the normal course of business operations.
54. The Parent Board and New Parent each paid their own expenses, if any, incurred in connection with the Parent Exchange.
55. New Parent is not an investment company within the meaning of section 351(e)(1) and § 1.351-1(c)(1)(ii).
56. New Parent does not intend to make an election under section 1362(a) to be taxed as a “small business corporation” as defined in section 1361(a).
57. New Parent is not a “personal service corporation” within the meaning of section 269A.

E. With Respect to the Parent Reorganization

58. The Parent Corporate Interest issued to New Parent in the Parent Reorganization was exchanged solely for the Parent Interests deemed surrendered by New Parent in the Parent Reorganization.
59. The fair market value of the Parent Corporate Interest received by New Parent in the Parent Reorganization approximately equaled the fair market value of the Parent Interests deemed surrendered in exchange therefor. No property other than the Parent Corporate Interest was issued or distributed to New Parent in the Parent Reorganization.
60. The Parent Reorganization is not part of a plan to periodically increase the proportionate interest of any person in the assets or earnings and profits of Parent.
61. Parent has no plan or intention to redeem or otherwise reacquire the Parent Corporate Interest issued in the Parent Reorganization.
62. At the time of the Parent Reorganization, Parent did not have any outstanding warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire membership interests in Parent.
63. All exchanges in connection with the Parent Reorganization occurred on the same date.
64. The Parent Reorganization was undertaken pursuant to a plan of reorganization, as described in §§ 1.368-1(c) and 1.368-2(g), that was adopted by the taxpayer and each of its affiliates as necessary, before the Parent Reorganization.
65. As a result of the Parent Reorganization, New Parent owned all of the outstanding stock of the successor entity to Parent in the Parent Reorganization ("Reorganized Parent") and owned such stock solely by reason of its ownership of the Parent stock immediately prior the Parent Reorganization.
66. New Parent, the shareholder of Parent immediately prior to the Parent Reorganization, owned all of the outstanding stock of Reorganized Parent immediately after the Parent Reorganization in identical proportions by value other than as a result of a de minimis amount, if any, of stock deemed issued by Reorganized Parent to facilitate its organization or maintain its legal existence.
67. At the time of the Parent Reorganization, there was no plan or intention for Reorganized Parent to issue additional shares of its stock in the Parent Reorganization.

68. Immediately before the Parent Reorganization, Reorganized Parent had no business history, tax attributes (including those specified in section 381(c)), or assets other than a de minimis amount of assets to facilitate its organization or maintain its legal existence and tax attributes related to holding those assets or proceeds of borrowings undertaken in connection with the Parent Reorganization.
69. Immediately after the Parent Reorganization, no corporation other than Reorganized Parent held property that was held by Parent immediately before the Parent Reorganization, if such other corporation would, as a result, succeed to and take into account the items of Parent described in section 381(c).
70. Immediately after the Parent Reorganization, Reorganized Parent did not hold property acquired from a corporation other than Parent if Reorganized Parent would, as a result, succeed to and take into account the items of such other corporation described in section 381(c).
71. Parent was deemed to liquidate in the Parent Reorganization for federal income tax purposes.
72. The liabilities of Parent assumed by Reorganized Parent, within the meaning of section 357(d), were incurred by Parent in the ordinary course of business and are associated with the assets transferred.
73. Reorganized Parent, Parent and New Parent paid or will pay their respective expenses, if any, incurred in connection with the Parent Reorganization.
74. All other transactions undertaken contemporaneously with, in anticipation of, in conjunction with, or in any way related to the Parent Reorganization for which the Private Letter Ruling Request is requested have been fully disclosed.
75. All exchanges effectuating the Parent Reorganization were on a value-for-value basis under arm's-length terms.
76. Other than New Parent, which will be subject to federal income tax as a holding company for one or more organizations described in sections 501(m) and 833, no party to the Parent Reorganization is an organization exempt from federal income tax within the meaning of section 501.
77. No party to the Parent Reorganization was a "personal service corporation" within the meaning of section 269A.

Rulings

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

A. With Respect to the Subsidiary Exchange

1. The Subsidiary Exchange will qualify as a tax-free exchange under section 351(a).
2. Parent will recognize no gain or loss upon the transfer of the equity interest of Sub 3 to Sub 7 in the Subsidiary Exchange under sections 351(a) and 357(a).
3. No gain or loss will be recognized by Sub 7 upon the receipt of the equity interests of Sub 3 in the Subsidiary Exchange under section 1032(a).
4. The basis of the equity interests of Sub 3 received by Sub 7 will be the same as the basis of such equity interests in the hands of Parent determined immediately prior to the Subsidiary Exchange under section 362(a).
5. The holding period of the equity interests of Sub 3 received by Sub 7 will include the period during which Parent held such equity interests under section 1223(2).
6. The tax basis of the Sub 7 stock held by Parent will be increased by the basis of the assets transferred in the Subsidiary Exchange under section 358(a).

B. With Respect to the Parent Exchange

7. The amendment to the articles of incorporation and bylaws of Parent will be treated for federal income tax purposes as if (i) the Parent Interests were transferred to New Parent in exchange for New Parent Interests (i.e., the Parent Exchange) followed by (ii) Parent issuing its Parent Corporate Interest to New Parent in exchange for all the Parent Interests held by New Parent (i.e., the Parent Reorganization).
8. The Parent Board will recognize no gain or loss on the deemed transfer of the Parent Interests to New Parent in the Parent Exchange under sections 351(a) and 357(a).
9. New Parent will recognize no gain or loss on the deemed receipt of the Parent Interests in the Parent Exchange under section 1032(a).
10. The Parent Board's basis in the New Parent Interests deemed received in the Parent Exchange will be the same as the basis of the Parent Interests deemed transferred by the Parent Board to New Parent, reduced by the amount of any liabilities (other than those described in section 357(c)(3)) deemed assumed by New Parent in the Parent Exchange under section 358(a)(1), (d)(1), and (d)(2).

11. The Parent Board's holding period in the New Parent Interests deemed received in the Parent Exchange will include the holding period of the Parent Interests deemed transferred in exchange therefor, provided that the Parent Interests were held as capital assets on the date of the Parent Exchange under section 1223(1).
12. New Parent's holding period in the Parent Interests deemed received from the Parent Board in the Parent Exchange will include the period during which the Parent Interests were held by the Parent Board under section 1223(2).

C. With Respect to the Parent Reorganization

13. The Parent Reorganization constitutes a reorganization within the meaning of section 368(a)(1)(E) as well as section 368(a)(1)(F). *Cf.* Rev. Rul. 2003-19, Situation 2. Parent will be a "party to the reorganization" within the meaning of section 368(b).
14. Parent will recognize no gain or loss on the deemed issuance of the Parent Corporate Interest for the Parent Interests under section 1032(a).
15. New Parent will not recognize any gain or loss on the deemed exchange of the Parent Interests for the Parent Corporate Interest under section 354(a)(1) of the Code.
16. New Parent's basis in the Parent Corporate Interest deemed received will equal the basis of the Parent Interests deemed surrendered in exchange therefor under section 358(a)(1).
17. New Parent's holding period in the Parent Corporate Interest deemed received from Parent in the Parent Reorganization will include the period during which the Parent Interests were held by New Parent under section 1223(1).

D. With Respect to Section 1502

18. The Parent Group remains in existence with New Parent as the common parent following the Parent Exchange under § 1.1502-75(d)(3).
19. Because § 1.1502-75(d)(3) applies, § 1.1502-31 applies to determine New Parent's tax basis in the stock of Parent. See § 1.1502-31(b)(2).

E. With Respect to Section 833

20. The Restructuring will not result in a material change under section 833 with respect to Parent.

F. With Respect to the Parent Transfer

21. The transfer by Parent of DRE 2, Sub 7, and DRE 3 to DRE 5 (a disregarded entity of New Parent) for no consideration will be characterized for federal income tax purposes as a distribution from Parent to New Parent. The tax consequences of this distribution will be governed by §§ 1.1502-13(f)(2) and 1.1502-32(b) (providing for a negative adjustment to the tax basis of Parent).

G. With Respect to the Sub 4 Transfer

22. The transfer by Sub 4 of DRE 1 to DRE 5 (a disregarded entity of New Parent) for no consideration will be characterized for federal income tax purposes as a distribution from Sub 4 to Parent followed by a distribution from Parent to New Parent. The tax consequences of this distribution will be governed by §§ 1.1502-13(f)(2) and 1.1502-32(b) (providing for a negative adjustment to the tax basis of Parent).

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the Restructuring 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 Restructuring that is not specifically covered by the above rulings. Specifically, with respect to the treatment of the distributions described in Rulings 21 and 22 as taxable distributions, no opinion is expressed regarding (i) the amount of the distribution and (ii) whether a taxable distribution results in gain or loss to the distributing corporation. Further, with respect to Ruling 20, such ruling only applies to the Restructuring, and we express no opinion, nor do we rule, on any subsequently occurring transactions with respect to section 833.

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 this letter ruling.

In accordance with the power of attorney on file with this office, a copy of this ruling letter is being sent to your authorized representatives.

PLR-115796-24

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Sincerely,

Jonathan M. Kushner
Senior Technician Reviewer, Branch 3
Office of Chief Counsel (Corporate)

cc: