Internal Revenue Service

Department of the Treasury

Index Number: 0338.01-02
9100.07-00

Washington, DC 20224

Number: **199945029**
Release Date: 11/12/1999

Person to Contact:

Telephone Number:

Refer Reply To:
CC:DOM:CORP:3 PLR-107977-99
Date:
August 13, 1999

Legend:

New Parent =

Parent =

Sub #1 =

Sub #2 =

Sub #3 =

Purchaser =

Holding =

Seller =

Target =

Date A =
Date B =
Date C =
Date D =
Date X =
Date Y =
Parent's Company Officials & Tax Professionals =

Holding's Company Officials =

Authorized Representatives =

This responds to your April 26, 1999 letter, on behalf of the above taxpayers, requesting an extension of time under § 301.9100-1 through 301.9100-3 of the Procedure and Administration Regulations to file an election. New Parent (as the common parent of the group that is the successor to the Parent group (i.e., the group that included Purchaser (i.e., the purchasing corporation) when the acquisition was made and the election was due) and that now includes Purchaser) and Holding (as the common parent of the consolidated group that includes the selling corporation (i.e., Seller)) are requesting an extension of time to file a "section 338(h)(10) election" under §§ 338(g) and 338(h)(10) of the Internal Revenue Code and § 1.338(h)(10)-1(d) of the Income Tax Regulations (sometimes hereinafter referred to as the "Election"), with respect to Purchaser's acquisition of the Target stock on Date B. Additional information was received in a letter dated August 5, 1999. The material information is summarized below.

New Parent was newly formed to acquire Parent, and is now the common parent of a consolidated group that has a taxable year ending on June 30 and uses the

accrual method of accounting. See the discussion below regarding New Parent's acquisition of Parent after Purchaser's acquisition of Target, and after the Election was due and this request for relief was requested. Parent was the common parent of a consolidated group that had a calendar taxable year and used the accrual method of accounting. Purchaser is a wholly owned subsidiary of Sub #3, which, in turn, is a wholly owned subsidiary of Sub #2, which, in turn, is a wholly owned subsidiary of Sub #1, which in turn, is a wholly owned subsidiary of Parent. All of the corporations mentioned in the immediately preceding sentence (along with other subsidiaries that are not relevant for purposes of this request) were included in Parent's consolidated federal income tax return, and they are now included in New Parent's consolidated return (i.e., the surviving members). Holding is the common parent of a consolidated group that has a calendar taxable year and uses the accrual method of accounting. Target is a wholly owned subsidiary of Seller, which, in turn, is a wholly owned subsidiary of Holding. All of the corporations mentioned in the immediately preceding sentence (along with other subsidiaries that are not relevant for purposes of this request) are included in Holding's consolidated federal income tax return. Target does not have any subsidiaries. There are no "disregarded entities" in the ownership chain between either Purchaser and Parent, or Holding and Target.

On Date A, Sub #2, Sub #3, Target and Seller entered into a Stock Purchase Agreement for Sub #3's acquisition of Seller's Target stock. Subsequently, Sub #3 assigned its right to acquire the Target stock to Purchaser. On Date B (which is after Date A), Purchaser acquired all of Seller's Target stock, pursuant to the Stock Purchase Agreement, for cash in a fully taxable transaction. Following the acquisition, "new" Target was included in Purchaser's consolidated return. It is represented that (1) Purchaser was not related to Seller within the meaning of § 338(h)(3), and (2) Purchaser's acquisition of the stock of Target qualified as a "qualified stock purchase," as defined in § 338(d)(3).

Parent and Holding intended to file the Election. The Election was due on Date C (which is after Date B). However, for various reasons a valid Election was not filed. On Date D (which is after Date C), Parent's Company Officials & Tax Professionals, Holding's Company Officials, and Authorized Representatives discovered that the Election had not been properly filed. Subsequently, this request was submitted, under § 301.9100-1, for an extension of time to file the Election.

On Date X (which is after Purchaser's acquisition of Target, and after the Election was due and this request for relief was requested) Parent was merged into New Parent in a transaction represented to qualify as a reorganization under §§ 368(a)(1)(A), 368(a)(2)(D), and 381(a). As a result, New Parent became the surviving entity, Parent ceased to existed, and New Parent became the successor to Parent. Moreover, beginning on Date Y (which is the day after Date X), New Parent will file a consolidated return which includes Sub #1, Sub #2, Sub #3, Purchaser and Target (along with any other applicable subsidiaries, and which are not relevant for purposes of this request).

The period of limitations on assessments under § 6501(a) has not expired for New Parent's (and its related entities', including Parent's and Purchaser's) and Holding's (and its related entities', including Target's) taxable year(s) in which the acquisition occurred, the taxable year(s) in which the Election should have been filed, or any taxable year(s) that would have been affected by the Election had it been timely filed. Moreover: (1) no returns have been filed that are not consistent with the Election for the taxable year(s) in which the acquisition occurred, the taxable year(s) in which the Election should have been filed, or any taxable year(s) that would have been affected by the Election had it been timely filed; (2) New Parent, Parent and Holding have not had their returns examined (and the "audit cycles have not passed) for the taxable year(s) in which the acquisition occurred, the taxable year(s) in which the Election should have been filed, or any taxable year(s) that would have been affected by the Election had it been timely filed; and (3) the Service has not discovered that the Election has not been filed.

Section 338(a) permits certain stock purchases to be treated as asset acquisitions if:(1) the purchasing corporation makes or is treated as having made a "section 338 election" under § 338(g); and (2) the acquisition is a qualified stock purchase ("QSP"). Section 1.338-1(c)(10) provides that a "section 338" election is an election to apply section 338(a) to target. Section 338(g) specifies the requirements for making a "section 338 election." Section 1.338(h)(10)-1(d)(3) provides that if a § 338(h)(10) election is made for T, a "section 338 election" is deemed made for T. Section 338(d)(3) defines a QSP as any transaction or series of transactions in which stock (meeting the requirements of § 1504(a)(2)) of 1 corporation is acquired by another corporation by purchase during the 12 month acquisition period.

Section 338(h)(3)(A) provides that the term "purchase" means any acquisition of stock, but only if: (i) the basis of the stock in the hands of the purchasing corporation is not determined (I) in whole or in part by reference to the adjusted basis of such stock in the hands of the person from whom acquired, or (II) under § 1014(a) (relating to property acquired from a decedent); (ii) the stock is not acquired in an exchange to which § 351, 354, 355, or 356 applies and is not acquired in any other transaction described in regulations in which the transferor does not recognize the entire amount of the gain or loss realized on the transaction; and (iii) the stock is not acquired from a

person the ownership of whose stock would, under § 318(a) (other than paragraph (4) thereof), be attributed to the person acquiring such stock.

Section 338(h)(10) permits the purchasing and selling corporations to jointly elect to treat the target corporation as deemed to sell all of its assets and distribute the proceeds in complete liquidation. The sale of stock included in the QSP is generally ignored. A § 338(h)(10) election may be made for target only if it is a member of a selling consolidated group, a member of a selling affiliated group filing separate returns, or an S corporation. Section 1.338(h)(10)-1(a). Gain or loss on the deemed sale is included in the consolidated return of the selling group (unless the target corporation is a member of a selling affiliated group filing separate returns or an S corporation). Section 1.338(h)(10)-1(d) provides that a § 338(h)(10) election may be made for the target corporation if the purchasing corporation makes a QSP of the target corporation stock. Sections 1.338(h)(10)-1(d)(2) and (3) provide that if a § 338(h)(10) election is made for the target corporation, it is irrevocable and a § 338 election is deemed made for the target corporation.

More specifically, Target is treated as if, while a member of the selling group (or owned by the selling affiliate or S corporation shareholders), it distributed all of its assets in complete liquidation. If target is an S corporation immediately before the acquisition date, nothing in the § 338 provisions prevents a holder of target stock from taking deemed sale gain into account under §§ 1366 and 1367. See § 331 or 332 for gain or loss recognized by the old target shareholders as a result of the deemed liquidation. Section 1.338(h)(10)-1(e)(2)(ii). No gain or loss is recognized on the sale or exchange by the selling consolidated group (or the selling affiliate or an S corporation shareholder) of target stock included in the QSP. If target is an S corporation immediately before target's acquisition date, the sale or exchange of old target does not result in a termination of the § 1362(a) election for the S corporation. Section 1.338(h)(10)-1(e)(2)(iv).

Section 1.338(h)(10)-1(d)(2) provides that a § 338(h)(10) election is jointly made by a purchaser and the selling consolidated group (or the selling affiliate or the S corporation shareholders) on Form 8023 in accordance with the instructions to the form. The regulations further provide that the election must be made not later than the 15th day of the ninth month beginning after the month in which the acquisition date occurs. The instructions to Form 8023 provide that a § 338(h)(10) election must be made jointly by the purchasing corporation (or the common parent of the consolidated group of which the purchasing corporation is a member, or the selling affiliate or S corporation shareholders) and the selling corporation (or the common parent of the consolidated group of which the selling corporation is a member, or the selling affiliate or S corporation shareholders). The instructions provide that the form must be signed by each person authorized to act on behalf of each corporation, and if made for an S corporation it must be signed by each S corporation shareholder who sells target stock in the "qualified stock purchase." The instructions further provide that the signatures, dates and titles (if applicable) of those persons must be provided in a "signature

attachment," and they provide specific details as to the preparation of the "signature attachment" and its attachment to Form 8023.

Section 1.1502-77(a) provides that the common parent, for all purposes (other than for several purposes not relevant here), shall be the sole agent for each subsidiary in the group, duly authorized to act in its own name in all matters relating to the tax liability of the consolidated return year. See also Form 8023 and the instructions thereto.

Under § 301.9100-1 (c), the Commissioner has discretion to grant a reasonable extension of time to make a regulatory election, or a statutory election (but no more than six months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H and I, provided the taxpayer demonstrates to the satisfaction of the Commissioner that:

(1) The taxpayer acted reasonably and in good faith, and,
(2) Granting relief will not prejudice the interests of the government.

Section 301.9100-1(b) defines the term "regulatory election" as including an election whose due date is prescribed by a regulation, revenue ruling, revenue procedure, notice, or announcement. Sections 301.9100-1 through 301.9100-3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make a regulatory election. Section 301.9100-1(a). Section 301.9100-2 provides automatic extensions of time for making certain elections. Requests for relief under § 301.9100-3 will be granted when the taxpayer provides evidence to establish that the taxpayer acted reasonably and in good faith, and that granting relief will not prejudice the interests of the government. Section 301.9100- 3(a).

In this case, the time for filing the Election is fixed by the regulations (i.e., § 1.338(h)(10)-1(d)). Therefore, the Commissioner has discretionary authority under § 301.9100-1 to grant an extension of time for Purchaser and Sellers to file the Election, provided Purchaser and Holding show they acted reasonably and in good faith, the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied, and granting relief will not prejudice the interests of the government.

Information, affidavits, and representations submitted by Parent's Company Officials & Tax Professionals, Holding's Company Officials, and Authorized Representatives explain the circumstances that resulted in the failure to timely file a valid Election. The information establishes that relief was requested under § 301.9100-3 before the failure to make the Election was discovered by the Service, and that no reporting position was taken by any affected party that did not conform with the Election. See § 301.9100-3(b)(1). Also, the information establishes that tax professionals were responsible for the Election, that Parent and Holding relied on them

to timely make the Election, and that the government will not be prejudiced if relief is granted. See §§ 301.9100-3(a), 301.9100-3(b)(1)(i) and 301.9100-3(b)(1)(v).

Based on the facts and information submitted, including the representations made, we conclude that Parent and Holding have shown they acted reasonably and in good faith, the requirements of §§ 301.9100-1 and 301.9100-3 are satisfied, and granting relief will not prejudice the interests of the government. Accordingly, an extension of time is granted under § 301.9100 -1, until 30 days from the date of issuance of this letter, for New Parent (as the common parent of the group that is the successor to the Parent group (i.e., the group that included Purchaser (i.e., the purchasing corporation) when the acquisition was made and the election was due) and that now includes Purchaser) and Holding (as the common parent of the consolidated group that includes the selling corporation (i.e., Seller)) to file the Election with respect to the acquisition of Target, as described above.

The above extension of time is conditioned on: (i) both New Parent (for itself and as successor to Parent) and Holding signing the Election, (ii) both New Parent (for itself and as successor to Parent) and Holding treating the acquisition/sale of the Target stock as a § 338(h)(10) transaction, and (iii) the taxpayers' (i.e., New Parent's (for itself and as successor to Parent) and its subsidiaries', and Holding's and its subsidiaries') tax liability (if any) being not lower, in the aggregate, for all years to which the Election apply, than it would have been if the Election had been timely made (taking into account the time value of money). No opinion is expressed as to the taxpayers' tax liability for the years involved. A determination thereof will be made by the District Director's office upon audit of the Federal income tax returns involved. Further, no opinion is expressed as to the Federal income tax effect, if any, if it is determined that the taxpayers' liability is lower. Section 301.9100-3(c).

New Parent (for itself and as successor to Parent) and Holding must file the Election in accordance with § 1.338(h)(10)-1(d). That is, a new Election on Form 8023, must be executed on or after the date of this letter, which grants an extension, and filed in accordance with the instructions to the form. See Announcement 98 -2, 1998 -2 I.R.B. 38. A copy of this letter should be attached to the election form.

New Parent (for itself and as successor to Parent) and Holding must amend their applicable returns to report the transaction as a § 338(h)(10) transaction for the year in with the transaction was consummated, and to attach to their returns a copy of this letter and a copy of the Election (along with the information required with the election form). If they have already reported the transaction as a § 338(h)(10) transaction then they must amend their returns to attach a copy of the election and a copy of this letter.

We express no opinion as to: (1) whether the acquisition/sale of Target's stock qualifies as a QSP under § 338(d)(3); (2) whether the acquisition/sale of Target's stock qualifies for § 338(h)(10) treatment; or (3) if § 338(h)(10) is applicable, as to the amount

and character of gain or loss, if any, recognized by Target (and, thus, by Holding) on the Target's deemed asset sale.

In addition, we express no opinion as to the tax consequences of filing the Election late under the provisions of any other section of the Code and regulations, or as to the tax treatment of any conditions existing at the time of, or resulting from, filing the Election late that are not specifically set forth in the above ruling. For purposes of granting relief under § 301.9100-1, we relied on certain statements and representations made by the taxpayers. However, the District Director (s) should verify all essential facts. In addition, notwithstanding that an extension is granted under § 301.9100-1 to file the Election, penalties and interest that would otherwise be applicable, if any, continue to apply.

This letter is directed only to the taxpayer(s) who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter is being sent to New Parent's Company Official and Holding's Company Official, pursuant to the powers of attorney on file in this office.

Sincerely yours,

Assistant Chief Counsel (Corporate)

by Richard Todd

Richard Todd
Counsel to the Assistant Chief
Counsel (Corporate)