

Internal Revenue Service

Number: **202134013**

Release Date: 8/27/2021

Index Number: 332.00-00, 337.00-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B01

PLR-127839-20

Date:

May 28, 2021

Legend:

Authority =

State =

Subsidiary =

Year X =
Transaction

Service Area =

Business A =

The Act =

z =

Systems =

Dear :

We respond to your authorized representatives' letter dated December 4, 2020, requesting rulings on certain federal income tax consequences of a proposed transaction described below (the Proposed Transaction). The material information provided in that request and in subsequent correspondence is summarized below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. While this Office has not verified any of the facts and material submitted in support of the request for rulings, it is subject to verification on examination.

This letter is issued pursuant to section 6.03 of Rev. Proc. 2021-1, 2021-1 I.R.B. 1, regarding rulings on one or more significant issues under sections 332, 351, 355, 368, or 1036 of the Internal Revenue Code (the Code). The rulings contained in this letter address only one or more discrete legal issues involved in the Proposed Transaction. This Office expresses no opinion as to the overall federal tax consequences of the Proposed Transaction or as to any issue not specifically addressed by the rulings below.

Summary of Facts

Authority is a political subdivision of State. It was created pursuant to the Act and is governed by a z-member board of trustees (the Board). Authority has no outstanding stock, and, as a political subdivision, Authority is not subject to federal income taxation and does not file federal income tax returns. The Act authorized Authority to provide Business A services to residents of State.

Authority provides Business A services in the Service Area through its wholly owned subsidiary, Subsidiary, a State corporation acquired by Authority in the Year X Transaction. Income Subsidiary derives from the conduct of Business A is excluded from gross income under section 115(1) of the Code.

Authority and Subsidiary are parties to certain financing agreements that outline their respective duties and obligations relating to the operation of Business A. Authority issues all debt for Authority and Subsidiary, the proceeds of which are treated as loaned from Authority to Subsidiary. All revenues received by Subsidiary are pledged to

Authority and used to repay the loans from Authority. All of the income generated by Subsidiary inures to the benefit of Authority to be used in the conduct of essential governmental and public functions.

Pursuant to certain administrative agreements, Authority provides Subsidiary with personnel, management, supervisory, payroll and other services for use in the conduct of its day to day operations. Subsidiary separately contracts with independent agents, attorneys, and consultants for services in addition to obtaining other services through contracts approved by Authority.

Authority approves the disbursement of all funds of Subsidiary, prepares its operating budgets, coordinates all accounting matters and administration of billings and collections from Subsidiary's customers and coordinates all other matters arising under agreements relating to any projects that Subsidiary might undertake to carry out Business A. Subsidiary also outsources to third parties some of its day to day operations including maintenance, customer service, billing and collections to obtain resources, including critical Systems, necessary for Subsidiary to conduct Business A in the Service Area. These outsourcing agreements are subject to the approval of Authority.

State and the Board have determined that Business A can be conducted more efficiently if Subsidiary is eliminated as a separately controlled corporation and that merging subsidiary into Authority is consistent with the objectives of the Act. Authority represents that directly providing Business A services in the Service Area will reduce ongoing compliance and administrative cost to the public in the conduct of Business A in the Service Area and will reduce public confusion.

Proposed Transaction

Pursuant to the law of State, Authority and Subsidiary will adopt a plan of merger and reorganization in which Subsidiary will merge with and into the Authority with Authority surviving.

Representations

Authority has made the following representations with respect to the Proposed Transaction:

- a) Authority is a political subdivision.
- b) Subsidiary is a corporation the income of which is excluded from gross income under section 115(1) of the Code.

- c) At all times since the Year X Transaction and through the date of the Proposed Transaction, Authority has owned and will own 100 percent of the equity of Subsidiary.
- d) Authority has no plan or intention to sell or otherwise dispose of any of the assets of Subsidiary acquired in the Proposed Transaction, except for dispositions made in the ordinary course of business.
- e) The liabilities of Subsidiary assumed by Authority in the Proposed Transaction and the liabilities to which the assets of Subsidiary are subject, if any, were incurred by Subsidiary in the ordinary course of its business.
- f) Following the Proposed Transaction, Authority will continue to conduct Subsidiary's historical business.
- g) There is no intercorporate indebtedness existing between the Authority and Subsidiary that was issued, acquired, or will be settled at a discount.
- h) Neither of the parties to the Proposed Transaction is an investment company as defined in sections 368(a)(2)(F)(iii) and (iv).
- i) Subsidiary is not under the jurisdiction of a court in a title 11 or similar case within the meaning of section 368(a)(3)(A).
- j) The fair market value of the Subsidiary assets received by Authority will exceed the sum of the liabilities assumed by Authority, plus the amount of liabilities, if any, to which the transferred assets are subject.
- k) Authority and Subsidiary will adopt a plan of merger, and the Proposed Transaction will occur pursuant to such plan. The Proposed Transaction also qualifies as a complete liquidation under section 332.
- l) All services Subsidiary obtains are reasonable and necessary and at no more than fair market value.

Rulings

Based solely on the information provided and the representations set forth above, we rule as follows regarding the Proposed Transaction:

- 1) The Year X Transaction will not preclude the Proposed Transaction from otherwise qualifying as a liquidation under section 332 of the Code.
- 2) The regulations issued under section 337(d) do not apply to the liquidation of Subsidiary. Subsidiary is a tax-exempt entity within the meaning of section

1.337(d)-4(c)(2)(vii) of the Treasury Regulations. The combination of Subsidiary and Authority and the distribution of Subsidiary's assets to Authority would be a transfer of assets from a tax-exempt entity to a political subdivision. Such transactions are not covered by the regulations under section 337(d).

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the federal tax consequences of the proposed transaction under any other provisions of the Code and regulations thereunder or about the tax treatment of any aspect of any transaction or item not specifically discussed or referenced in this letter. Specifically, we express no opinion concerning the application of section 1245 or section 1250 upon the disposition of any assets in the Proposed Transaction and future transactions.

Procedural Statements

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

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

A copy of this letter must be attached to any income tax return to which it is relevant.

Sincerely,

Filiz A. Serbes
Special Counsel
Office of Associate Chief Counsel (Corporate)

cc: