

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PA:APJP:B01

PLR-139502-05

Date:

October 18, 2005

RE:

Legend

Company =

Year 1 =

Year 2 =

Dear :

This letter responds to a letter dated April 26, 2005, and a supplemental letter dated September 19, 2005, submitted by Company's authorized representative on its behalf requesting certain rulings under section 6050P of the Internal Revenue Code (Code).

Facts

Company was incorporated in Year 1. Company purchases, manages, and liquidates consumer accounts receivable. Company purchases large portfolios of consumer accounts receivable from credit card issuers and other consumer debt issuers that have charged-off the accounts after unsuccessful attempts to collect. Company manages the collection on these accounts primarily through collection agencies and law firms.

If a debtor makes payments on an account, the account may remain on Company's books for many years. If a debtor does not make payments on an account, Company may offer to settle the account with the debtor for less than the face value of the account.

Company may authorize a collection agency acting on its behalf to settle an account and write-off the balance. Company may sell account portfolios to other third party

purchasers of debt. The activities of purchasing, collecting, and selling consumer accounts receivable represent 100 percent of Company's business.

Rulings Requested

(1) Company is an organization with "a significant trade or business of lending money" for purposes of section 6050P(c)(2)(D) of the Code and section 1.6050P-2 of the Income Tax Regulations (regulations).

(2) Company is an applicable entity for purposes of section 6050P(c) of the Code and is subject to the information reporting requirements for discharges of indebtedness in section 6050P and section 1.6050P-1 of the regulations.

Law and Analysis

Section 6050P(a) of the Code provides that any applicable entity that discharges indebtedness of any person during a calendar year must file an information return reporting the discharge. Section 6050P(c) provides that an "applicable entity" includes an "applicable financial entity." Section 6050P(c)(2)(D) defines an applicable financial entity to include an organization with "a significant trade or business of lending money."

Section 1.6050P-2(a) of the regulations provides that lending money is a significant trade or business for purposes of section 6050P(c)(2)(D) of the Code if the organization lends money on a regular and continuous basis during the calendar year. Section 1.6050P-2(e) provides that lending money includes acquiring an indebtedness. Section 1.6050P-2(d) provides that gross income from lending money includes income from interest, gains from the sale of indebtedness, and penalties and fees with respect to the indebtedness.

Section 1.6050P-2(b) of the regulations provides three safe harbors in which an organization will not be treated as having a significant trade or business of lending money. In general, an organization will satisfy one of the safe harbors if: (1) the organization was not required to report in the preceding year and the organization's gross income from lending money in its most recent test year is both less than \$5 million and less than 15 percent of its gross income for that test year; (2) the organization was required to report in the preceding year and the organization's gross income from lending money in its three most recent test years is both less than \$3 million and less than 10 percent of its gross income for that test year; or (3) the organization does not have a test year for the applicable calendar year. Section 1.6050P-2(f) provides that, for any calendar year, a test year is a taxable year of the organization that ends before July 1 of the previous calendar year.

Based on the facts submitted and the representations made, Company fails to satisfy any of the safe harbors in section 1.6050P-2(b) of the regulations. Because Company was formed in Year 1, Company has a test year for Year 2 and will continue to have a

test year for each subsequent calendar year that it remains in existence. Company represents that 100 percent of its gross income derives from its business of purchasing, collecting, and selling consumer accounts receivable.

Because Company's principal business is acquiring indebtedness, and Company does not satisfy any of the safe harbors in section 1.6050P-2(b), Company is an organization with a significant trade or business of lending money for purposes of section 6050P(c)(2)(D) of the Code and the regulations. Company is, therefore, an applicable entity for purposes of section 6050P(c) and is subject to the information reporting requirements of section 6050P and the regulations.

Conclusions

(1) Company is an organization with a significant trade or business of lending money for purposes of section 6050P(c)(2)(D) of the Code and section 1.6050P-2 of the regulations.

(2) Company is an applicable entity for purposes of section 6050P(c) of the Code and is subject to the information reporting requirements for discharges of indebtedness in section 6050P and section 1.6050P-1 of the regulations.

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.

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.

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

The rulings contained in this letter are based upon information submitted and representations made by the taxpayer and submitted under penalty of perjury. While this office has not verified any of the material submitted in support of the request for rulings, it may be subject to verification on examination.

Sincerely yours,

Donna Welch
Senior Counsel, Administrative Provisions &
Judicial Practice
(Procedure & Administration)

Enclosures (2)
Copy of this letter
Copy for section 6110 purposes

cc: