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Date:

October 19, 2001

LEGEND

Purchaser =

Target =

Disregarded Entity =

Seller #1 =

Seller #2 =

Seller #3 =

Seller #4 =

Seller #5 =

Seller #6 =

Date A =

Date B =

Company Official =

Tax Professional =

This letter responds to a letter dated June 25, 2001, submitted on behalf of Seller #1, Seller #2, Seller #3, Seller #4, Seller #5, and Seller #6 (collectively, "Sellers") and Purchaser, requesting an extension of time under §§ 301.9100-1 through 301.9100-3 of the Procedure and Administration Regulations to file an election. Purchaser and Sellers are requesting an extension to file a "§ 338(h)(10) election"

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under §§ 338(g) and 338(h)(10) of the Internal Revenue Code and § 1.338(h)(10)-1T(c) of the Income Tax Regulations with respect to Purchaser's acquisition of the stock of Target (sometimes hereinafter referred to as the "Election"), on Date A. (All citations in this letter to regulations under § 338 are to regulations in effect on Date A.) Purchaser has also requested an extension of time under §§ 301.9100-1 through 301.9100-3 to file an election to treat Target as a qualified subchapter S subsidiary ("QSub") pursuant to § 1361(b)(3)(B)(ii). That request will be dealt with in a separate letter. This letter assumes that any election by Purchaser to treat Target as a QSub, if made, will not be effective prior to the day following Date A. Additional information relating to the Purchaser and Sellers' request for an extension to file a § 338(h)(10) election was received in a letter dated August 27, 2001. The material information is summarized below.

Purchaser is the sole member of Disregarded Entity, an entity disregarded as a separate entity for federal income tax purposes pursuant to § 301.7701-3(b)(1)(ii). Target is an S corporation. Immediately prior to the Date A acquisition described below, all of the stock of Target was owned by Sellers.

On Date A, Purchaser, Disregarded Entity, and Sellers entered into a stock purchase agreement for Disregarded Entity to acquire all of the Target stock from Sellers. Also on Date A, Disregarded Entity (i.e., for federal income tax purposes, Purchaser) acquired all of the stock of Target from Sellers in exchange for cash and an installment obligation. It is represented that Purchaser's acquisition of the stock of Target qualified as a "qualified stock purchase," as defined in § 338(d)(3).

The Election was due on Date B, but for various reasons a valid Election was not filed. After the due date for the Election, it was discovered that the Election had not been filed. Subsequently, this request was submitted, under § 301.9100-1, for an extension of time to file the Election. The period of limitations on assessment under § 6501(a) has not expired for Purchaser's, Target's, or Sellers' taxable years in which the acquisition occurred, the taxable years in which the Election should have been filed, or any taxable years that would have been affected by the Election had it been timely 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 "§ 338 election" or a "§ 338(h)(10) election"; and (2) the acquisition is a "qualified stock purchase."

Section 338(h)(10) permits the purchasing corporation and the seller to elect jointly to treat the target corporation as deemed to sell all of its assets and distribute the proceeds in complete liquidation. 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)-1T(c).

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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.

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)-1T(c)(2)). 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 Sellers 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 Purchaser, Company Official and Tax Professional explain the circumstances that resulted in the failure to timely file a valid Election. The information establishes that Purchaser and Sellers reasonably relied on a qualified tax professional, who failed to make, or advise the taxpayers to make, the Election, and that the interests of the government will not be prejudiced if relief is granted. See § 301.9100-3(b)(1)(v).

Based on the facts and information submitted, including the representations made, we conclude that Purchaser and Sellers 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 45 days from the date on this letter, for Purchaser and Sellers to file the Election with respect to the acquisition of the stock of Target, as described above.

The above extension of time is conditioned on (1) the filing, within 120 days of the date on this letter, of all returns and amended returns (if any) necessary to report the transaction in accordance with the Election, and (2) the taxpayers' (Purchaser's, Sellers', and Target's) tax liability (if any) being not lower, in the aggregate, for all years to which the Election applies, 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 applicable 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

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determined that the taxpayers' tax liability is lower. Section 301.9100-3(c).

Purchaser and Sellers must file the Election in accordance with § 1.338(h)(10)-1T(c). That is, a new election on Form 8023 must be executed on or after the date on this letter, which grants an extension, and filed in accordance with the instructions to the form. A copy of this letter must be attached to the election form. Purchaser and Sellers must file or amend, as applicable, their returns to report the transaction as a § 338(h)(10) transaction for the taxable year in which the transaction was consummated (and for any other affected taxable year), and to attach to the returns a copy of the letter ruling and a copy of the Election.

We express no opinion as to: (1) whether Disregarded Entity is properly treated as a disregarded entity for federal tax purposes; (2) whether the "acquisition/sale" of the Target stock qualifies as a "qualified stock purchase" under § 338(d)(3); (3) whether the "acquisition/sale" of Target stock qualifies for § 338(h)(10) treatment; or (4) any other tax consequences arising from the Election.

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 Director 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.

Purchaser must provide each of the Sellers with a copy of this letter.

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

Pursuant to the power of attorney on file in this office, a copy of this letter is being sent to your authorized representative.

Sincerely yours,
Ken Cohen
Senior Technician Reviewer, Branch 3
Office of Associate Chief Counsel
(Corporate)