

## Internal Revenue Service

Department of the Treasury

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Person to Contact:

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February 29, 2000

### Legend

X =

a =

Year =

State =

Dear

This responds to your letter dated June 30, 1999, submitted on behalf of X, requesting rulings on the federal income tax consequences of the conversion of X from a general partnership to a limited liability company.

### Facts

X is a State general partnership that owns and operates a mobile home park business. The partners of X have negative capital accounts through the end of Year.

X proposes to convert to an LLC by filing articles of organization pursuant to the applicable State law. X will retain the same method of accounting and accounting period. Each partner's total percentage interest in X's profits, losses and capital will remain the same, and the business of X will continue in the same manner after the conversion.

At the end of Year, X held long-term debt in the amount of \$a. This debt is secured by X's property and is personally guaranteed by all of the partners and thus treated as recourse debt. This debt will continue to be shared for basis purposes in the same manner that it was before the conversion. There will be no change in any partner's share of X's liabilities.

X has requested the following rulings:

1. The conversion will not cause X or its partners to recognize gain or loss, provided that the partners' respective shares of liabilities under § 752 do not change upon the conversion.
2. The conversion will not be treated as a sale or exchange for purposes of § 708.
3. The conversion of X from a general partnership to an LLC will not terminate X.
4. Upon conversion from a general partnership to an LLC, X will not need to obtain a new taxpayer identification number.
5. The partners' holding periods for their respective interests in the LLC will include the holding periods of their respective interests in the general partnership, and the partner's capital account balances in the LLC will continue to be their capital account balances from the general partnership.
6. The LLC's initial basis in the assets it receives from the general partnership will be the same as the general partnership's basis in such assets immediately prior to the conversion.

### Law and Analysis

Section 708 provides that a partnership is considered continuing if it is not terminated. A partnership is terminated only if (1) no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership, or (2) within a 12-month period, there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits.

Section 1.708-1(b)(1)(ii) of the Income tax Regulations provides, in part, that a contribution of property to a partnership does not constitute a sale or exchange for purposes of § 708.

Under § 721(a), no gain or loss is recognized by a partnership or any of its partners upon the contribution of property to the partnership in exchange for an interest therein.

Section 1223(1) provides that the holding period of property received in exchange for other property includes the holding period of the property exchanged if the property received has the same basis (in whole or in part) as the property exchanged.

Rev. Rul. 84-52, 1984-1 C.B. 157, considers the federal income tax consequences of converting a general partnership into a limited partnership. Each partner's total percentage interest in the partnership's profits, losses, and capital remained the same after the conversion. Further, the business of the general partnership continued to be carried on after the conversion.

Rev. Rul. 84-52 treats the conversion as an exchange under § 721. The revenue ruling holds that the general partnership is not terminated because the business of the general partnership will continue after the conversion and because, under § 1.708-1(b)(1)(ii), a transaction governed by § 721 is not treated as a sale or exchange for purposes of § 708. The revenue ruling also holds that (1) if the partners' shares of partnership liabilities do not change, there will be no change in the adjusted basis of any partner's interest in the partnership, and (2) under § 1223(1), there will be no change in the holding period of any partner's total interest in the partnership.

Rev. Rul. 95-37, 1995-1 C.B. 130, examines the conversion of a domestic partnership into a domestic LLC classified as a partnership for federal tax purposes. Rev. Rul. 95-37 holds, in part, that the federal income tax consequences described in Rev. Rul. 84-52 apply to the conversion of a domestic partnership into a domestic LLC classified as a partnership regardless of the manner in which the conversion is achieved under state law. The revenue ruling further concludes that the resulting LLC does not need to obtain a new taxpayer identification number.

Based on the information submitted, and provided that X is classified as a partnership for federal tax purposes, we rule as follows:

1. The conversion will not cause X or its partners to recognize gain or loss, provided that the partners' respective shares of liabilities under § 752 do not change upon the conversion.
2. The conversion will not be treated as a sale or exchange for purposes of § 708.
3. The conversion of X from a general partnership to an LLC will not terminate X.
4. Upon conversion from a general partnership to an LLC, X will not need to obtain a new taxpayer identification number.
5. The partners' holding periods for their respective interests in the LLC will include the holding periods of their respective interests in the general partnership, and the partner's capital account balances in the LLC will continue to be their capital account balances from the general partnership.
6. The LLC's initial basis in the assets it receives from the general partnership will be the same as the general partnership's basis in such assets immediately prior

to the conversion.

Except as specifically ruled upon above, we express no opinion concerning the federal tax consequences of the facts described under any other provision of the Code or regulations.

Pursuant to a power of attorney on file with this office, a copy of this letter is being provided to X. X-LLC should attach a copy of this letter to its first federal tax return.

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

Sincerely yours,

Shannon Cohen  
Acting Assistant to the Chief, Branch 3  
Office of the Assistant Chief Counsel  
(Passthroughs and Special Industries)

Enclosures (2)

Copy of this letter  
Copy for § 6110 purposes