

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:DOM:CORP:4 PLR-114873-98

Date:

November 10, 1998

Corp A =

Activity B =

C =

D =

E =

F =

G =

H =

I =

J =

K =

Corp L =

M =

State N =

Year A =

a =

b =

Dear

This letter responds to your July 20, 1998 request for rulings on certain federal income tax consequences of a proposed transaction.

Summary of Facts

Corp A, a taxable for-profit corporation, conducts Activity B and has two classes of common stock outstanding, class A voting stock ("Class A Stock") and class B non-voting stock ("Class B Stock"). C and D, husband and wife, own all the Class A Stock and a majority of the Class B Stock. The remaining Class B Stock is owned by E, F, G, H, I, J, and K.

In Year A, Corp A formed Corp L, a nonprofit corporation tax-exempt under § 501(c)(3) of the Internal Revenue Code, to facilitate the conduct of Activity B in contracting with M.

Proposed Transaction

The parties propose the following transaction:

- (i) C and D will contribute their Class A Stock to Corp L.
- (ii) C and D will sell part of their Class B Stock to Corp L for a dollars in cash, which is represented to be less than the fair market value of the stock.

(iii) Corp A will redeem the remaining Class B Stock held by C and D, as well as the Class B Stock held by E, F, G, H, I, J, and K, for secured notes each of which will have a term of 20 years and an interest rate of 7.25 percent. The aggregate consideration for the Class B Stock will be b dollars, which is represented to be less than the fair market value of the stock.

(iv) Corp A will convert to nonprofit status under applicable State N law by amending its corporate articles and by-laws.

(v) Corp A will apply to the Internal Revenue Service for exemption from federal income tax under § 501(a) as an organization described in § 501(c)(3).

Representations

The parties represent that:

(a) The conversion of Corp A from profit to nonprofit status through amendment of its articles and by-laws will not cause its dissolution under State N law.

(b) Corp A will continue to conduct its historic business.

(c) Corp A has no plan or intention to sell or otherwise dispose of its assets except for dispositions made in the ordinary course of business.

Ruling

Based solely on the information submitted and representations made and provided the tax-exempt status of Corp A under § 501(c)(3) takes effect before proposed § 1.337(d)-4 of the Income Tax Regulations becomes effective as a final regulation, the conversion of Corp A from a taxable for-profit corporation to a tax-exempt nonprofit corporation will not result in the recognition of gain or loss under §§ 336 and 337.

Caveats

We express no opinion about the tax treatment of the transaction under any other sections of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered in the above rulings. In particular, no opinion is expressed on (a) whether any transfer of Class A Stock or Class B Stock described above in step (i) or (ii) will be deductible in whole or part under § 170 and (b) whether any redemption described above in step (iii) will be treated as an exchange under § 302(a).

The ruling in this letter is based on the facts and representations submitted under penalties of perjury in support of the request for a ruling. Verification of that information may be required as part of the audit process.

Procedural Statements

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.

A copy of this ruling letter should be attached to the federal income tax return of each taxpayer involved for the taxable year in which the transaction covered by this letter is completed.

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

Sincerely yours,

Assistant Chief Counsel (Corporate)

By: _____
Wayne T. Murray
Senior Technician/Reviewer
Branch 4