

Internal Revenue Service

Department of the Treasury

Number: **200123020**

Release Date: 6/8/2001

Index Numbers: 355.00-00, 367.00-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:4 PLR-122218-00

Date:

March 6, 2001

Country B =

Date 1 =

Date 2 =

Sub 15 =

This letter responds to your October 19, 2000 request for a supplement to our prior letter ruling dated June 20, 1996 (the "Prior Letter Ruling") (PLR 9637052). The legend abbreviations, factual summary, representations, and caveats appearing in the Prior Letter Ruling are incorporated by reference into this letter, except as noted herein.

The Prior Ruling Letter described a multi-step transaction which included the following steps: (i) Distributing distributing the stock of Controlled, a domestic corporation, to its shareholders, (ii) the Distributing shareholders exchanging all their Distributing stock for stock of Acquiring, a Country A corporation, and (iii) Acquiring transferring all of the Distributing stock received from the Distributing shareholders to FSub (a Country B corporation) in exchange for all the stock of FSub (steps (ii) and (iii) collectively referred to hereinafter as the "Acquisition").

The Prior Letter Ruling states that Distributing's distribution of its Controlled stock qualifies for § 361(c)/355 nonrecognition treatment and that the Acquisition qualifies as a reorganization under § 368(a)(1)(B) and § 368(a)(2)(C).

With regard to the Acquisition, the Prior Letter Ruling contained representations that (i) the Distributing shareholders that owned 5 percent or more of the stock of Acquiring would enter into a gain recognition agreement under § 1.367(a)-3T(c) and (g), (ii) there was no plan or intention on the part of Acquiring to sell or otherwise dispose of the FSub stock received in the transaction, and (iii) Acquiring would be in "control" of FSub within the meaning of § 368(c). Furthermore, the Prior Letter Ruling contained the following ruling:

(26) Provided that Distributing shareholders that own 5 percent or more of Acquiring stock (taking into account the rules under § 958 and § 1.367(a)-

1T(c)(4)) enter into a 5-year gain recognition agreement that satisfies the requirements of § 1.367(a)-3T(g), no gain will be recognized by such shareholders under § 367(a)(1) with respect to the transfers described in ruling (20) above. If either Acquiring disposes of the stock of FSub or FSub disposes of the stock of Distributing during the period in which the gain recognition agreement is in force, gain will be triggered under the agreement. Section 1.367(a)-3T(g). For purposes of § 1.367(a)-3T(g)(3)(iii), the term “substantial portion” shall be defined as “substantially all” (within the meaning of § 368(a)(1)(C)).

On Date 1, Controlled was spun off to the Distributing shareholders and Acquiring acquired all the stock of Distributing. On Date 2, Acquiring transferred the Distributing stock to FSub.

Acquiring now proposes to form Sub 15 as a Country A corporation, and to contribute its FSub stock to Sub 15 (the “FSub Contribution”). Acquiring has requested the following supplemental rulings:

(1) The FSub Contribution will have no effect on the rulings contained in the Prior Letter Ruling except that ruling (26) should be modified to provide that a Distributing shareholder that entered into a gain recognition agreement in connection with the Acquisition will not recognize gain as a result of the FSub Contribution, provided that such shareholder complies with the requirements of §§ 1.367(a)-3T(g)(7)(i), (ii) and (iii) (as amended in 1995).

(2) The gain recognition agreements entered into in connection with ruling (1) above will terminate on the same date as the gain recognition agreements entered into in connection with the Acquisition.

The following representations have been submitted in connection with the requested rulings:

(a) The FSub Contribution is a transaction in which gain or loss will not be required to be recognized under U. S. income tax principles. See § 1.367(a)-3T(g)(7) (as amended on December 26, 1995).

(b) There have been no conversions of Acquiring Preferred Stock pursuant to a concerted plan which would result in both preferred and common stock being held by an exchanging Distributing shareholder.

(c) Each Distributing shareholder which owned 5 percent or more of Acquiring's stock immediately after the Acquisition entered into a gain recognition agreement pursuant to § 1.367(a)-3T(c) and (g) (as amended on December 26, 1995).

(d) No gain recognition agreements entered into in connection with the

Acquisition have been triggered.

(e) No shares of Contingent Acquiring Preferred Stock (as defined in the Prior Letter Ruling) have been issued between Date 1 and the present.

(f) Less than 50% of the total voting power and total value of the stock of Acquiring was received in the Acquisition, in the aggregate, by U.S. transferors including any Contingent Acquiring Preferred Stock that could be received.

(g) Less than 50% of the total voting power and total value of the stock of Acquiring was owned, in the aggregate, immediately after the Acquisition by U.S. persons who were either officers or directors of Distributing or who were 5 percent shareholders (as defined in § 1.367(a)-3(T)(c)(6)(iii) (as amended on December 26, 1995)) of Distributing immediately before the Acquisition including any Contingent Acquiring Preferred Stock that could be received.

(h) Acquiring or an affiliate of Acquiring had been engaged in the active conduct of a trade or business, within the meaning of §§ 1.367(a)-2(T)(b)(2) and (3), that was substantial in comparison to the trade or business of Distributing for the entire 36-month period immediately preceding the date of the Acquisition.

(i) In connection with the FSub Contribution, each Distributing shareholder that entered into a gain recognition agreement in connection with the Acquisition, except in those situations in which the gain recognition agreement was triggered, will comply with the requirements of §§ 1.367(a)-3T(g)(7)(i), (ii), and (iii).

(j) Each Distributing shareholder that owned 5 percent or more of Acquiring's stock immediately after the Acquisition has complied with the requirements of § 6038B and any regulations thereunder with respect to the Acquisition.

(k) Acquiring has not disposed of the stock of FSub, and FSub has not disposed of the stock of Distributing.

Based solely on the information and representations submitted, we rule as follows regarding the proposed transactions described above:

(1) The FSub Contribution will have no effect on the rulings contained in the Prior Letter Ruling except that ruling (26) is modified to provide that a Distributing shareholder that entered into a gain recognition agreement in connection with the Acquisition will not recognize gain as a result of the FSub Contribution, provided that such shareholder complies with the requirements of §§ 1.367(a)-3T(g)(7)(i), (ii) and (iii) (as amended in 1995).

(2) The gain recognition agreements entered into in connection with ruling (1)

above will terminate on the same date as the gain recognition agreements entered into in connection with the Acquisition.

No opinion is expressed about the federal tax effects of the proposed transactions, other than as described above. Specifically, no opinion is expressed whether the FSub Contribution will be non taxable for U.S. tax purposes.

All caveats contained on page 22 of the Prior Letter Ruling continue in effect.

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

A copy of this letter (as well as the Prior Letter Ruling) should be attached to the federal income tax return of each taxpayer involved for the taxable year in which the transactions described in this letter are completed.

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

Sincerely,
Associate Chief Counsel (Corporate)
By: Stephen P. Fattman
Assistant to the Chief
Branch 4