

## Internal Revenue Service

Department of the Treasury

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**December 11, 1998**

Corporation A =

Corporation B =

Corporation C =

Corporation D =

Sub F =

Z Business =

State A =

Date =

Dear :

This is in reply to a letter dated August 24, 1998, requesting a further supplemental ruling that a certain proposed transaction described below will not adversely impact the private letter ruling previously issued to Corporation B on February 26, 1997. A prior supplemental ruling letter was issued on July 21, 1997, (collectively the "Prior Ruling"). Additional information was submitted in letters dated September 16, November 30, December 3, and December 1998.

The rulings contained in this letter are predicated upon facts and representations submitted by your authorized representatives and accompanied by a penalties of perjury statement executed by you. This office has not verified any of the material submitted in support of this request for ruling. Verification of the factual information, representations and other data may be required as part of the audit process. The information submitted is summarized below.

Corporation A, a State A corporation, is the common parent of an affiliated group of corporations, which files a consolidated federal income tax return on a calendar year basis using the accrual method of accounting. Corporation A was formed in 1996 to become the new holding company of the consolidated group that includes, among other entities, wholly-owned subsidiaries Corporations B and C and second tier subsidiary, Corporation D. Corporation A became the parent of the group following an acquisition consummated during Date, described as the "Corp. B acquisition" in the Prior Ruling.

Corporation B is an integrated company whose business operations include the Z Business. Corporation B currently has nonvoting preferred stock outstanding that meets the definition of § 1504(a)(4) of the Internal Revenue Code. Corporation B was acquired by Corporation A in the Corp. B acquisition. As a condition precedent to the Corp B acquisition, Corporation B agreed to distribute the stock of its subsidiary, Sub F. The Prior Ruling held that the proposed distribution qualified under Section 355(a) of the Internal Revenue Code.

Following completion of the transactions described in the Prior Ruling and during the preparation of its State A Franchise Tax returns, the taxpayer became aware that the transactions, which created a double holding company structure, increased the franchise taxes due to State A. In order to reduce the State A franchise taxes payable, the taxpayer now proposes having Corporation C distribute the stock of its wholly-owned subsidiary, Corporation D, to Corporation A as a dividend. As a result, Corporation D will become a first tier subsidiary of Corporation A.

The following representations have been made in connection with the proposed transaction described above:

- (1) The proposed transaction will be treated as a dividend distribution taxable under § 301.
- (2) There is no plan or intention by Corporation A to liquidate Corporation B, Corporation C or Corporation D; to merge either Corporation B, Corporation C or

Corporation D with any other corporation; or to sell or otherwise dispose of the stock or assets of Corporation B, Corporation C or Corporation D, except in the ordinary course of business.

- (3) At the time of the transactions described in the Prior Ruling, there was no contemplation of or plan to engage in this proposed transaction.

Based solely on the information and representations submitted, we rule that consummation of the proposed transaction will not have any adverse effect on the rulings issued in the Prior Ruling.

No rulings were requested and no opinion is expressed about the tax treatment of the proposed transaction described herein, or about the tax treatment of any conditions existing at the time of, or effects resulting from, such transactions, that are not specifically covered by the above ruling. Specifically, no opinion is expressed as to whether the proposed distribution will be treated as a distribution of a dividend or as a distribution qualifying under section 355(a). A determination of the federal income tax consequences of the proposed transaction will be determined by the appropriate District Director's office upon audit of the federal income tax return in which the proposed transaction is reported.

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.

In accordance with a power of attorney in file with this office, copies of this letter are being sent to your authorized representatives. A copy of this letter should be attached to the federal income tax return of the taxpayers involved for the taxable year in which the transaction covered by this ruling letter are consummated.

Sincerely Yours,

Assistant Chief Counsel (Corporate)

By \_\_\_\_\_  
Howard W. Staiman  
Assistant to the Chief (CC:DOM:CORP:1