

Internal Revenue Service

Department of the Treasury

Index Number: 0355.00-00

Washington, DC 20224

Number: **200019013**

Person to Contact:

Release Date: 5/12/2000

Telephone Number:

Refer Reply To:

CC:DOM:CORP:4 PLR-102434-00

Date:

February 10, 2000

This letter responds to your January 27, 2000 request for a supplement to our ruling letter issued February 24, 1998, and designated PLR-119885-97 (the "Ruling Letter"). The information submitted for consideration is summarized below. Capitalized terms retain the meanings assigned them in the Ruling Letter.

The Ruling Letter addressed a series of transactions (the "Transactions") that included an internal distribution of Controlled stock to Distributing 2 (the "Internal Distribution") followed by a distribution of the Controlled stock to the public shareholders of Distributing 2 (the "External Distribution"). The Transactions have since been completed. Controlled satisfied the active business requirement of § 355 (b) through Business C, which had been conducted by Sub 4 before its merger into LLC as a prelude to the Internal Distribution (LLC is treated for federal income tax purposes as an unincorporated division of Controlled). In the Ruling Letter, Distributing 2 represented that "[t]here is no plan or intention to liquidate either Distributing 2 or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the External Distribution, except in the ordinary course of business."

After completing the Transactions, Controlled attempted to expand Business C by dedicating additional resources to the growth of employees, offices, and assets. Despite this effort, unforeseen circumstances have caused a significant and consistent decline in the Business C rate of return, which is now below the target rate Controlled has set for its businesses. Consequently, Controlled has decided to discontinue its involvement in Business C.

Based solely on the information and documents submitted, we rule that the discontinuance of Business C, as described above, will not adversely affect any of the rulings set forth in the Ruling Letter, and those rulings will retain full force and effect.

We express no opinion on the tax effects of the Transactions under any other provisions of the Code and regulations or the tax effects of any conditions existing at the time of, or effects resulting from, the Transactions that are not specifically covered by the Ruling Letter and this supplemental ruling.

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

Each taxpayer involved in the Transactions should attach a copy of this supplemental ruling to the taxpayer's federal income tax return for the taxable year in which the Transactions are completed.

Sincerely,

Assistant Chief Counsel (Corporate)

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