

INTERNAL REVENUE SERVICE

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April 14, 1999

Company =

State X =

Date 1 =

This letter responds to a letter dated February 18, 1999 requesting a ruling under § 305 of the Internal Revenue Code. The information and representations submitted are summarized below.

Company, a State X corporation, operates as a diversified, closed-end regulated investment company. Company distributes its net investment income monthly and net capital gains annually.

Company believes that the market may undervalue Company stock by trading at a price less than the value of the pro rata portion of Company's assets allocable to such shares. In order to encourage the market to value Company stock at a price more closely reflecting the value of the underlying assets held by Company, Company proposes to offer to redeem a portion of its stock pursuant to a tender offer.

The taxpayer has made the following representations in connection with the proposed transaction:

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- (a) Company intends to continue to qualify annually for the tax treatment provided for in Part I of subchapter M of the Code. Furthermore, Company intends to distribute substantially all of its investment company taxable income and net realized capital gains at least annually.
- (b) Company is not required by its charter, by-laws, or otherwise to redeem any of its stock, and none of Company's shareholders have a right to require Company to make a tender offer or otherwise redeem any stock. The Board of Directors of Company has a fiduciary duty to Company and its shareholders to consider the appropriateness of any share repurchase and has not, in any manner, relinquished its discretion in carrying out its fiduciary duties.
- (c) The redemptions undertaken pursuant to the proposed tender offer are isolated transactions and are not related to any other past or future transactions.
- (d) The proposed tender offer is motivated solely by Company's business considerations and is not motivated by any intent on Company's part to confer a federal income tax benefit on any shareholder.
- (e) The proposed tender offer is not part of a plan to periodically increase the proportionate share of any shareholder in the assets or earnings and profits of Company.
- (f) At the present time, Company has no plan or absolute commitment to make any further tender offers subsequent to the presently proposed tender offer. However, it is possible that Company will make additional tender offers in future years based on circumstances prevailing at that time.
- (g) Company has not redeemed any of its shares since its creation on Date 1.

Based solely on the information submitted and the representations set forth above, we hold as follows:

The redemption of Company stock pursuant to the proposed tender offer, described above, will constitute a single and isolated transaction which is not part of a periodic redemption plan. The transaction will not result in a § 305 deemed distribution to any of Company's shareholders regardless of whether or not the shareholder has a portion of the shareholder's stock redeemed in the transaction (*see Example (10)* of § 1.305-3(e) of the Income Tax Regulations).

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The above ruling addresses only the application of § 305 to Company shareholders who do not participate in the tender offer (or who participate only partially). We express no opinion about the transaction's tax effect under §§ 302 and 301 on those Company shareholders who do participate in the transaction. We express no opinion about the tax treatment of the transaction under any other provisions of the Code and regulations, or about the tax treatment of any condition existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above ruling.

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

Each affected taxpayer must attach a copy of this letter to the taxpayer's federal income tax return for the tax year in which the transaction covered by this ruling letter is consummated.

We have sent a copy of this letter to the representative designated on the power of attorney on file in this office.

Sincerely yours,

Assistant Chief Counsel (Corporate)

By Ken Cohen

Ken Cohen  
Senior Technical Reviewer, Branch 3