

## Internal Revenue Service

## Department of the Treasury

Number: **200232016**  
Release Date: 8/9/2002  
Index Number: 0368.05-00  
1502.75-10

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:DOM:CORP:1-PLR-155976-01

Date:

February 12, 2002

Parent =

Holding Company =

Foundation =

Business L =

State X =

Y =

Dear

This letter is in reply to your letter dated October 10, 2001, requesting rulings with respect to a proposed transaction. Additional information was submitted in a letter dated January 25, 2002. The information submitted for consideration is summarized below.

Parent is a nonprofit nonstock State X corporation engaged in Business L. Parent is the common parent of an affiliated group of corporations that files a consolidated federal income tax return.

Foundation is a State X nonprofit corporation that has been formed to effectuate the proposed transaction. Foundation has applied for recognition as an organization described in § 501(c)(4) of the Internal Revenue Code.

The above corporations represent that in order to accomplish corporate business

purposes, they desire to convert Parent into a stock corporation, which will eliminate certain restrictions on Parent's business operations. To accomplish these goals, the following transaction has been proposed (and partially consummated):

1. Foundation has been formed.
2. Parent will file a \_\_\_\_\_ (the "Plan") with the appropriate State X regulatory body. Pursuant to the Plan, Parent will amend and restate its articles of incorporation to convert from a State X nonprofit nonstock corporation to a State X stock corporation (the "Conversion"), and the surviving corporation ("Newco") will continue the legal existence of Parent. At the time of the Conversion, all of the outstanding stock of Newco will be transferred to Foundation.
3. Holding Company will be formed as a State X stock corporation, and Foundation will transfer all of the Newco stock to Holding Company in exchange for all of the stock of Holding Company.
4. On or after the effective date of the Conversion, Foundation may sell Holding Company stock in one or more private placements or in an initial public offering to the public over a period of y years.

The following representations have been submitted with respect to the proposed transaction:

- (a) For purposes of State X law, Parent and Newco will be the same legal entity both before and after the Conversion.
- (b) The Conversion will occur under a plan of reorganization agreed upon before the transaction.
- (c) Each party to the Conversion will pay its own expenses, if any, incurred in connection with the Conversion, other than expenses associated with the formation of Foundation, which will be paid by Parent. In addition, Parent is obligated \_\_\_\_\_ to reimburse State X officials for the actual costs of reviewing, analyzing, and processing the Conversion plan.
- (d) After the effective date of the Conversion, Newco and its affiliated subsidiaries will continue to conduct the business operations that Parent and its affiliated subsidiaries conducted immediately prior to the effective date of the Conversion.
- (e) The Conversion is not part of a plan to periodically increase the proportionate interest of any shareholder in the assets or earnings and profits of Parent.

- (f) Parent is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).
- (g) Foundation has no current plan or intention to sell Holding Company stock to Holding Company or any corporation related to Holding Company.

Based solely on the information submitted and the representations made, it is held as follows with respect to the Conversion described above:

- (1) The Conversion of Parent from a nonprofit nonstock corporation to a stock corporation will constitute a reorganization within the meaning of § 368(a)(1)(E). Parent will be “a party to a reorganization” within the meaning of § 368(b).
- (2) No gain or loss will be recognized by Parent. Parent’s basis in its assets, its holding period for its assets, its earnings and profits, its annual accounting period, and its accounting methods will not be affected by the Conversion.
- (3) No gain or loss will be recognized by Foundation on its receipt of Parent’s shares in connection with the Conversion (§ 354).
- (4) The Parent consolidated group will remain in existence following the transaction with Holding Company as the new common parent (§ 1.1502-75(d)(2)(ii)).
- (5) The proposed transaction will qualify as a “group structure change” under § 1.1502-33(f), and the earnings and profits of Holding Company will be adjusted immediately after Holding Company becomes the new common parent to reflect the earnings and profits of Parent immediately before Parent ceases to be the common parent (§ 1.1502-33(f)).
- (6) Holding Company’s basis in Newco stock immediately after the group structure change will be Newco’s net asset basis as determined under § 1.1502-31(c), subject to the adjustments described in § 1.1502-31(d) (§ 1.1502-31(b)(2)).

Based solely on the information submitted and the representations made, it is held as follows with respect to the formation of Holding Company described above:

- (7) No gain or loss will be recognized by Holding Company upon the receipt of Newco stock in exchange for the issuance of Holding

Company stock (§ 1032).

We express no opinion about the tax treatment of the transaction under other provisions of the Internal Revenue Code or the Regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above rulings.

Furthermore, we express no opinion with respect to § 833 of the Code, including whether the Conversion constitutes a material change within the meaning of § 833(c). If the Conversion constitutes such a material change, we express no opinion on its effect on the above rulings.

This ruling letter has no effect on any earlier documents and 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 taxable year in which the transaction covered by this letter ruling is consummated.

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

Sincerely yours,  
Associate Chief Counsel (Corporate)  
Michael J. Wilder  
Senior Technician Reviewer, Branch 1