

**Internal Revenue Service**

Department of the Treasury

Index Number: 708.03-00

Washington, DC 20224

Number: **199944016**

Person to Contact:

Release Date: 11/5/1999

Telephone Number:

Refer Reply To:

CC:DOM:P&SI:2-PLR-106787-99

Date:

August 3, 1999

A =

B =

X =

Y =

Seller 1 =

Seller 2 =

Newco =

Ruling #1 =

Ruling #2 =

Date 1 =

Date 2 =

Dear :

This is in reply to your letter dated March 29, 1999, and subsequent correspondence, requesting rulings on behalf of X under § 708 of the Internal Revenue Code and regarding the applicability of two prior letter rulings.

The information submitted states that X is a limited liability company that is classified as a partnership for federal income tax purposes. A holds a 99 percent capital and profits interest in X and B holds a 1 percent capital and profits interest in X. Y is a limited liability company that is classified as a partnership for federal income tax purposes. X holds a 99 percent capital and profits interest in Y and B holds a 1 percent capital and profits interest.

On Date 1, X acquired certain gas working interests (Ruling #1 Assets) from Seller 1 in exchange for cash and additional payments payable from time to time. Seller 1 also retained production payments. The Internal Revenue Service (the Service) issued Ruling #1 to X with respect to the transfer of the Ruling #1 Assets.

On Date 2, Y acquired certain gas operating and/or royalty interests (Ruling #2 Assets) from Seller 2 in exchange for cash, a non-recourse note, and additional payments payable from time to time. Seller 2 also retained production payments. The Service issued Ruling #2 to Y with respect to the transfer of the Ruling #2 Assets.

To segregate the ownership of the Ruling #1 Assets from interests in Y, a division of X into X and Newco, a newly formed limited liability company, is proposed. Immediately thereafter, A will hold a 99 percent capital and profits interest in Newco and B will hold a 1 percent capital and profits interest in Newco. Newco will be classified as a partnership for federal income tax purposes. Newco will hold the Ruling #1 Assets and Y will continue to hold the Ruling #2 Assets.

X represents that, after the division, all of the Ruling #1 Assets and the liabilities associated with them will be owned and owed by Newco. X also represents that there will not be any material changes to the purchase and sale agreement between Seller 1 and X regarding the Ruling #1 Assets in connection with this transfer.

X represents that, after the division, all of the Ruling #2 Assets and the liabilities associated with them will continue to be owned and owed by Y. X also represents that there will not be any material changes to the purchase and sale agreement between Seller 2 and Y regarding the Ruling #2 Assets in connection with the transfer of the Ruling #1 Assets.

You have requested rulings that, after the division, (1) both X and Newco will be considered continuations of X for federal income tax purposes; (2) Ruling #1 will apply to Newco;

and (3) Ruling #2 will continue to apply to Y.

Section 708(b)(2)(B) provides that in the case of a division of a partnership into two or more partnerships, the resulting partnerships (other than a resulting partnership the members of which had an interest of 50 percent or less in capital and profits of the prior partnership) shall, for purposes of § 708, be considered a continuation of the prior partnership.

Section 1.708-1(b)(2)(ii) of the Income Tax Regulations provides, in part, that upon the division of a partnership into two or more partnerships, the resulting partnership or partnerships shall be considered a continuation of the prior partnership if its members had an interest of more than 50 percent in the capital and profits of the prior partnership.

Based on the facts and representations submitted, we conclude that X, after the division, and Newco will be considered continuations of the present X. In addition, we conclude that Ruling #1 will apply to Newco to the same extent that Ruling #1 applied to X and Ruling #2 will continue to apply to Y after the division.

Except as specifically set forth above, no opinion is expressed concerning the federal tax consequences of the facts described above under any other provision of the Code. Specifically, no opinion is expressed regarding the tax consequences of the transfer of the Ruling #1 Assets to Newco or the assumption of the liabilities associated with the Ruling #1 Assets by Newco. In addition, no opinion is expressed concerning the tax consequences of any transfer of any interest in X, Y, or Newco.

This ruling 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.

Pursuant to a power of attorney on file with this office, a copy of this letter is being sent to X.

Sincerely,  
H. GRACE KIM  
Assistant to the Chief,  
Branch 2  
Office of the Assistant  
Chief Counsel( Passthroughs & Special  
Industries)

Enclosures: (2)

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