

Internal Revenue Service

Department of the Treasury

Number: **200123053**

Release Date: 6/8/2001

Index Number: 0302.00-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:CORP:B05 - PLR-127292-00

Date:

March 12, 2001

Corporation =

Shareholder A =

Shareholder B =

Shareholder C =

Shareholder D =

Shareholder E =

Shareholder F =

Shareholder G =

Shareholder H =

Shareholder I =

Shareholder J =

Shareholder K =

Shareholder L =

Shareholder M =

Shareholder N =

Business X =

State A	=
X shares	=
Y shares	=
Z shares	=
<u>a</u> shares	=
<u>b</u> shares	=
<u>c</u> shares	=
d shares	=
<u>e</u> shares	=
<u>f</u> shares	=
<u>g</u> shares	=
<u>h</u> shares	=
<u>i</u> shares	=
<u>j</u> shares	=
<u>k</u> shares	=
<u>l</u> shares	=
<u>m</u> shares	=
<u>n</u> shares	=

This letter responds to your November 21, 2000 request for rulings concerning the federal income tax consequences of a proposed transaction. The information submitted for consideration is summarized below.

Corporation, an accrual method taxpayer, is incorporated in State A and engaged in Business X. Corporation has outstanding three classes of stock, X shares of Class A voting stock, Y shares of Class B non-voting stock, and Z shares of non-voting preferred stock (the "Preferred Stock"). Shareholders A, B, C, D, E, F, G, H, I, J, K, L, M and N (the "Redeeming Shareholders") plan to have all their shares of Preferred Stock in Corporation A redeemed. The Redeeming Shareholders currently own and will have redeemed the following number of Preferred Shares a, b, c, d, e, f, g, h, i, j, k, l, m,

and n, respectively.

The taxpayer has made the following representations concerning the proposed transaction:

- (a) There are no outstanding options or warrants to purchase Corporation stock, nor are there any outstanding debentures or other obligations that are convertible into Corporation stock or would be considered Corporation stock.
- (b) No notes or other obligations of the Corporation will be distributed to the Redeeming Shareholders.
- (c) No shareholder of the Corporation has been or will be obliged to purchase any of the stock to be redeemed.
- (d) The redemption is an isolated transaction and is not related to any other past or future transaction.
- (e) The Corporation has no plan or intention to issue, redeem, or exchange additional shares of its stock.
- (f) None of the stock to be redeemed is "section 306 stock" within the meaning of §306(c) of the internal revenue code.
- (g) There are no declared but unpaid dividends or funds set apart for dividends on any of the stock to be redeemed.
- (h) At the time of the exchange, the fair market value of the consideration to be received by the Redeemed Shareholders will be approximately equal to the fair market value of Corporation's stock to be exchanged therefor.
- (i) Except as to Redeeming Shareholders who received their Preferred Stock from an estate of a deceased shareholder (which, in the case of Redeeming Shareholders, are not related to the Corporation within the meaning of §267), the price to be paid for the Redeeming Shareholder's stock will not result in a loss with respect to those shares of stock.

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

- (1) The redemption by Corporation of the Preferred Stock from the Redeeming Shareholders will not be "essentially equivalent to a dividend" within the meaning of §302(b)(1). Therefore, the distribution in redemption of the Preferred Stock owned by the Redeeming Shareholders will be treated as a distribution in full payment in exchange for the stock redeemed as provided in §302(a).

(2) As provided in §1001, gain will be realized and recognized by the Redeeming Shareholders measured by the difference between the redemption price and the adjusted basis of the shares of the Corporation surrendered and will, therefore, be taxed as an exchange pursuant to §1001 of the Code.

We express no opinion on the tax treatment of the transaction under other provisions of the Code and regulations (including the gift tax provisions) or the treatment of any conditions existing at the time of, or the effects resulting from, the transaction not specifically covered by the above rulings.

The above rulings are effective to the extent that the amount distributed to the Redeeming Shareholders equals the fair market value of the Preferred Stock redeemed. We express no opinion about the tax effect of the amount, if any, by which the distribution by Corporation to Redeeming Shareholders exceeds or is less than, the fair market value of the stock redeemed. A determination of the fair market value of the stock redeemed is reserved until the federal income tax returns of the taxpayers concerned reporting any part of the proposed transaction have been filed.

This ruling is addressed only to the taxpayers who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent. It is important that a copy of this letter be attached to the federal income tax returns of the taxpayers involved for the taxable years in which the transaction covered by this letter is consummated.

Pursuant to a power of attorney on file in this office, a copy of this letter has been sent to your authorized representative.

Sincerely yours,
Assistant Chief Counsel (Corporate)

By Debra Carlisle
Chief, Branch 5