

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

[Third Party Communication:
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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:ITA:B04
PLR-112626-15
Date:
October 07, 2015

LEGEND

Taxpayer =

Corporation =

Date 1 =

Date 2 =

Buyer =

State =

Dear :

This responds to your request for a ruling under § 1202 of the Internal Revenue Code, dated April 6, 2015. The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination. Taxpayer represents the facts to be as follows:

On Date 1, Corporation was formed and issued common stock to eight stockholders, including the taxpayer (the Initial Stockholders). On Date 2 pursuant to an agreement, Buyer purchased a portion of the Corporation stock owned by each Initial Stockholder. Also pursuant to that agreement, Corporation redeemed a portion of each Initial Stockholder's Corporation stock (together, the Transaction). Thus, immediately after

the Transaction, Buyer and Initial Stockholders owned all the stock of Corporation. Immediately following the Transaction, Corporation converted into an LLC pursuant to State law. Corporation elected to continue to be taxed as a corporation for federal income tax purposes.

Taxpayer makes the following additional representations:

1. As of the Date 1, Corporation satisfied the requirements of § 1202;
2. Upon the receipt of Corporation stock on Date 1, Taxpayer held qualified small business stock under § 1202;
3. Taxpayer's Corporation stock retained after the Transaction continued to be § 1202 stock; and
4. The conversion of Corporation into an LLC pursuant to State law qualifies as a § 368(a)(1)(F) reorganization.

Section 1202 provides that gross income does not include 50 percent of any gain from the sale or exchange of qualified small business stock held for more than 5 years.

Section 1202(c) provides the definition of qualified small business stock.

Section 1202(h) provides that certain transfers of qualified small business stock will not be treated as a sale or exchange or affect the qualification of that stock as qualified small business stock. Section 1202(h)(3) provides that "[r]ules similar to the rules of section 1244(d)(2) shall apply for purposes of this section.

Section 1244(d)(2) provides, in part, that a successor corporation in a reorganization described in section 368(a)(1)(F) shall be treated as the same corporation as its predecessor.

Section 368(a)(1)(F) provides that a corporate reorganization includes a "mere change in identity, form, or place of organization of one corporation, however effected."

Therefore, based on the facts and representations submitted, we rule that the status of the original issue common stock of Corporation as qualified small business corporation stock held by the Initial Stockholders (if the stock is qualified small business stock under § 1202) is unaffected by the conversion.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no opinion is expressed or implied concerning i) the qualification of Corporation under § 1202, ii) the qualification of Corporation's stock as qualified small business stock under § 1202, or iii) whether the conversion qualifies as a § 368(a)(1)(F) reorganization.

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

Sincerely,

J Peter Baumgarten
Assistant to the Chief, Branch 4
(Income Tax & Accounting)