Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
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Date:
February 26, 1999

Legend

Acquirer =

Target =

Sellers =

State P =

Date 1 =

Date 2 =

Y =

Z =

Dear . :

We respond to your letter dated October 15, 1998, requesting a ruling concerning the federal income tax consequences of a proposed transaction. Additional information was submitted in letters dated November 23, 1998, December 1, 1998, January 20, 1999, January 22, 1999, January 27, 1999, January 28, 1999, February 17, 1999, and February 19, 1999. The information submitted is summarized as follows.

Acquirer is a State P non-profit corporation that has been classified as a tax-exempt organization under section 501(c)(3) and 509(a)(1) of the Code.

Target is a taxable for-profit sub-chapter C corporation incorporated under the laws of State P.

Sellers are individual shareholders who own all of the stock of Target.

The parties have completed or propose to complete the following steps (the "Transaction"):

1) On Date 1 (a date prior to the effective date of the final regulation under § 1.337(d)-4), Acquirer entered into a stock purchase agreement with Sellers (the "Agreement") to purchase all of Target's stock for $Y.

2) On Date 2 (a date prior to the effective date of the final regulation under 1.337(d)-4), the Agreement was amended to provide that following the purchase Target would convert from a taxable for-profit corporation to a tax exempt non-profit corporation (the "Conversion").

3) Upon a favorable IRS ruling, Acquirer will cause Target to amend its Articles of Incorporation.

4) Target will then apply to the IRS for tax exempt status as a charitable organization described in § 501(c)(3) and § 509(a)(3).

5) State P will then pay Acquirer approximately $Z in consideration of Acquirer limiting the use of Target's assets to that of a charitable organization under § 501(c)(3). No employee of State P is or will be on the Board of Directors of Acquirer or Target, nor is any employee of State P entitled to a seat on the Board of Directors of Acquirer or Target.

The Agreement is binding upon the occurrence of several conditions one of which is a favorable tax ruling from the IRS stating that the Transaction will not be taxable under § 336 or § 337. Acquirer has represented that its promise under the Agreement to effect the Conversion is legally binding under applicable law.

Based solely on the information submitted, we rule as follows:

The Transaction will not result in the recognition of gain or loss under § 336 or § 337.

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code and 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 ruling. In particular, no opinion is expressed as to whether Acquirer's promise under the Agreement to effect the Conversion is legally binding under applicable law.

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.

A copy of this letter should be attached to the federal income tax returns of the taxpayers involved for the taxable year in which the Transaction is consummated.

Sincerely,

Assistant Chief Counsel (Corporate)

By: ______________________________

Mark S. Jennings
Senior Technician Reviewer, Branch 1