Internal Revenue Service

Department of the Treasury

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Refer Reply To:
CC:INTL:Br.3-PLR-112170-00
Date:
October 13, 2000

DO: TY:

Legend

Corp X =

Corp Y =

Date A =

Date B =

Year C =

Dear

This is in response to a letter dated June 15, 2000, requesting a ruling that Corp Y and its subsidiaries be permitted to change to the tax value book method of asset valuation for purposes of apportioning interest expense, beginning with Date B, 2000. Additional information was received in a letter dated July 10, 2000.

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 a ruling, it is subject to verification on examination.

Corp X is a domestic corporation that is the parent of an affiliated group of corporations that files a consolidated federal income tax return on a calendar year basis. Corp X's stock is widely held and publicly traded. On Date A, 2000, a wholly owned domestic subsidiary of Corp X acquired at least 80 percent of the outstanding stock of Corp Y, a domestic corporation. Prior to this acquisition, Corp Y was the parent of an affiliated group of corporations that filed a consolidated federal income tax return on a calendar year basis and Corp Y's stock was widely held and publicly traded.

Corp X and its pre-acquisition subsidiaries have always used the tax book value method of asset valuation, as described in section 1.861-9T(g) of the Temporary Income Tax Regulations, for purposes of apportioning interest expense. Corp Y and its subsidiaries began using the fair market value method of asset valuation for purposes of apportioning interest expense, as described in section 1.861-9T(h), with the Year C taxable year. As a result of the acquisition, Corp Y and its subsidiaries will be included in Corp X's consolidated federal income tax return for the portion of Corp X's taxable year that post-dates the acquisition. The post-acquisition portion of Corp X's taxable year begins on Date B, 2000.

Section 864(e)(2) of the Internal Revenue Code provides that all allocations and apportionments of interest expense shall be made on the basis of assets rather than gross income.

Section 1.861-9T(g)(1)(ii) of the temporary regulations provides that, for purposes of apportioning interest expense, a taxpayer may elect to determine the value of its assets on the basis of either the tax book value or the fair market value of its assets. Section 1.861-8T(c)(2) provides that once a taxpayer uses the fair market value method, the taxpayer and all related parties must continue to use such method unless expressly authorized by the Commissioner to change methods.

Section 1.861-9T of the temporary regulations sets forth the rules specific to the apportionment of interest expense. Section 1.861-9T(g)(1)(iii) provides that if the taxpayer chooses the fair market value method of asset valuation, the taxpayer must establish the fair market value of its assets to the satisfaction of the Commissioner. Otherwise, the Commissioner may determine the appropriate values or require the taxpayer to use the tax book value method of apportionment. Section 1.861-9T(h) sets forth the rules for determining the fair market value of taxpayer's assets under the fair market value method.

Corp X requests, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), that Corp Y and its subsidiaries be permitted to use the tax book value method of asset valuation beginning on Date B, 2000. This request was made in order to conform Corp Y and its subsidiaries to the method of asset valuation used by other members of the Corp X consolidated group.

An additional basis for Corp X's request is that Corp X and its pre-acquisition subsidiaries wish to remain on the tax book value method of asset valuation. Corp X's ruling request states that it desires to retain the tax book value method because that method: (1) decreases complexity and avoids potential disagreements with the Service with respect to the fair market value of assets; (2) avoids the cost of having fair market value studies performed; and (3) provides greater certainty of tax results to both the taxpayer and the Service.

Based solely upon the information submitted, the representations made, and the reasons given for this request, Corp Y and its subsidiaries may change from the fair market value method of asset valuation for purposes of apportioning interest expense to the tax book value method, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), beginning on Date B, 2000.

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.

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.

In accordance with the power of attorney of file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant.

Sincerely,
Irwin Halpern
Senior Technical Reviewer, Branch 3
Office of the Associate Chief Counsel
(International)