

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

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Person To Contact:
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Date:
September 09, 2014

Legend

Parent =

LLC 1 =

LLC 2 =

Sub =

PC 1 =

PC 2 =

State A =

State B =

State C =

Shareholder =

Profession =

Professional =

Code A =

Code B =

Code C =

Code D =

First Stock
Transfer
Restriction
Agreement =

Second
Stock
Transfer
Restriction
Agreement =

Director
Agreement =

Professional
Director =

a =

b =

c =

d =

e =

f =

g =

Dear :

This letter responds to your March 11, 2014 request, submitted by your authorized representatives, for a ruling under section 1504(a) of the Internal Revenue Code. The information provided in that letter and in later correspondence is summarized below.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by penalties of perjury statements executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for ruling, it is subject to verification on examination.

FACTS

Parent, a State A corporation, is the common parent of an affiliated group of corporations that files a consolidated federal income tax return on a calendar year basis (the "Parent Group"). Parent wholly owns LLC 1, and LLC 1 wholly owns LLC 2; both LLC 1 and LLC 2 are State A limited liability companies that are disregarded as entities separate from Parent for U.S. federal tax purposes. LLC 2 wholly owns Sub, a State A corporation and member of the Parent Group.

PC 1 is a State B professional corporation, and is subject to State B's Code A and Code B. PC 2 is a State C professional corporation, and is subject to State C's Code C and Code D. PC 1 and PC 2 (collectively, the "PCs" and individually, a "PC") are engaged in Profession. Code B and Code D provide that PC 1 and PC 2, respectively, may only engage in Profession through one or more Professionals. Under Code B and Code D, the shares of corporations engaged in Profession generally may only be issued to, held by, or transferred to Professionals. Shareholder is a Professional and is authorized to engage in Profession in State B and in State C.

The PCs conduct the aspects of their respective businesses that constitute engagement in Profession. Under the terms of support services agreements among Sub, on the one hand, and PC 1 or PC 2, on the other, which each have a term of a years (each, a "Support Services Agreement"), Sub performs all administrative and support services, including financial reporting, billing, and information systems support, on behalf of the PCs in exchange for a fee. Sub also manages the PCs, to the extent such management does not constitute engagement in Profession.

Shareholder and Sub are parties to the Director Agreement. Pursuant to the provisions of the Director Agreement, Shareholder serves as Professional Director for the PCs, and oversees and coordinates Sub's business objectives for the PCs. Sub has the right to terminate the Director Agreement without cause or penalty upon e day's notice to Shareholder. The termination of the Director Agreement is a Transfer Event under each of the Stock Transfer Restriction Agreements.

Shareholder paid \$b (a nominal amount) to acquire, and holds, legal title to all of the issued and outstanding shares of the PCs. Sub, Shareholder and PC 1 have entered into the First Stock Transfer Restriction Agreement with respect to PC 1 and Sub, Shareholder and PC 2 have entered into the Second Stock Transfer Restriction Agreement with respect to PC 2, respectively (collectively, the "Stock Transfer Restriction Agreements").

Pursuant to the provisions of Article c of the bylaws of PC 1, the shares of PC 1 are certificated, and the share certificates are required to be endorsed with a legend, in bold print, noting (*inter alia*) that the shares of stock represented by the certificate are subject to the First Stock Transfer Restriction Agreement. Pursuant to the provisions of Article c of the bylaws of PC 2, the shares of PC 2 are certificated, and share certificates are required to conspicuously note any restriction on the transfer of the shares to which PC 2 is a party, to the extent the restriction was in effect upon the issuance of the shares. The Stock Transfer Restriction Agreements require all share certificates of the respective PCs to bear a legend, noting (*inter alia*) that the shares underlying the certificate are subject to the Stock Transfer Restriction Agreements. The stock certificates for the issued and outstanding shares of stock in the PCs are issued in the name of Shareholder, and bear the required legends.

The bylaws of each of the PCs prohibit the transfer of stock in the respective PC, other than in accordance with the relevant Stock Transfer Restriction Agreement, and provide that any person who transfers, holds, or purports to exercise any rights or privileges with respect to any shares of stock in the respective PC in violation of the rights, restrictions, or provisions of the bylaws shall not have the right to vote, receive dividends, or enjoy or exercise any right or privilege as a holder of shares of stock in the PC.

The Stock Transfer Restriction Agreements prohibit Shareholder from transferring or disposing of any shares of stock in the respective PCs, except as provided in the Stock Transfer Restriction Agreements. The Stock Transfer Restriction Agreements also prohibit Shareholder from having a PC make a dividend or other distribution with respect to its stock or issue additional equity interests or rights to acquire additional equity interests, and require Shareholder to take all steps necessary to prevent the PCs from taking any such action. Furthermore, Shareholder is not permitted to consent to a liquidation or dissolution of a PC without the prior consent of Sub.

The Stock Transfer Restriction Agreements mandate that upon the occurrence of certain events (each a “Transfer Event”), Shareholder must transfer, or will be deemed to transfer, all of the shares of the relevant PC to a person or entity identified by Sub (the “Designated Transferee”). Any Designated Transferee will be a Professional or entity permitted under Code B or Code D, as applicable, to directly hold the stock of the relevant PC. A Transfer Event with respect to a PC includes, but is not limited to: (i) the transfer or attempt to transfer any shares of stock in the PC to a person other than a Designated Transferee; (ii) Shareholder ceasing to be a Professional Director for the PC; (iii) the termination, with or without cause, of the PC’s Support Services Agreement; (iv) the filing of any petition for or other document causing or intended to cause judicial, administrative, voluntary, or involuntary dissolution of the PC; (v) Shareholder, either as a shareholder or director, voting to issue more of the PC’s stock to any person; (vi) Shareholder, either as a shareholder or director, voting to amend or otherwise attempting to amend the PC’s articles of incorporation or bylaws; (vii) Shareholder, either as a shareholder or director, voting to declare a dividend on the PC’s shares; (viii) Shareholder ceasing to be a director on the corporate board of the PC; (ix) Shareholder, either as a shareholder or director, voting to engage in or enter into any transaction providing for the sale, mortgage, lease, or other disposition of all or substantially all of the PC’s property and assets or voting to adopt a plan of dissolution and/or distribution of the assets of the PC or voting to adopt a plan of merger involving the PC; (x) Shareholder breaching a covenant set forth in Article d of the relevant Stock Transfer Restriction Agreement for the PC; (xi) Shareholder breaching any agreement between Shareholder and Sub; and (xii) Shareholder’s notification to Sub that Shareholder desires to transfer all of the stock in a PC.

In the event Sub decides to terminate PC 1’s or PC 2’s existence, Sub intends to carry out (or to cause to be carried out) the following steps to effect the termination: (i) Sub will effect a Transfer Event by terminating the Director Agreement, resulting in Shareholder ceasing to be Professional Director; (ii) upon the creation of the Transfer Event and pursuant to the Stock Transfer Restriction Agreement, Shareholder will transfer, or be deemed to transfer, all of the shares of stock in the relevant PC to Sub in exchange for the nominal amount (*i.e.*, \$b) that Shareholder initially paid to acquire legal title to the PC shares; and (iii) the relevant PC will be liquidated or merged into Sub, and all of its assets will be transferred to Sub. Under section f of Code B, if PC 1 were at any time to cease having a Professional as a shareholder, PC 1 could operate as a corporation for profit organized under Code A for the sole purpose of liquidation. Under section g of Code D, PC 2 could merge with a domestic or foreign professional or business corporation, provided that all of the shareholders of the disappearing and surviving corporations are qualified to be shareholders of the surviving corporation.

REPRESENTATIONS

Parent makes the following representations:

- (a) The PCs have never declared nor paid any dividends, nor made other distributions, to any shareholder.
- (b) The PCs do not intend to declare or pay any dividends, or make any other distributions, to any shareholder, except for distributions to Sub or other members of the Parent Group.
- (c) In the event the PC 1 shares or the PC 2 shares are transferred to a Designated Transferee pursuant to a Stock Transfer Restriction Agreement, such Designated Transferee will be required to execute a new stock transfer restriction agreement having terms substantially similar to the existing Stock Transfer Restriction Agreement.
- (d) The legal arrangements created by the Stock Transfer Restriction Agreements are valid and legally enforceable under applicable law.
- (e) Applicable law does not prohibit the beneficial ownership of stock in PC 1 by Sub.
- (f) Applicable law does not prohibit the beneficial ownership of stock in PC 2 by Sub.
- (g) Neither PC 1 nor PC 2 is (1) a section 501 tax-exempt corporation, (2) an insurance company subject to tax under section 801, (3) a foreign corporation, (4) a corporation that has an election in effect under section 936, (5) a regulated investment company, (6) a real estate investment trust, (7) a domestic international sales corporation under section 992, or (8) an S corporation.

RULING

Based on the facts and information submitted and the representations made, we rule that both PC 1 and PC 2 are members of the affiliated group (within the meaning of section 1504(a)(1)) of which Parent is the common parent, and will be permitted to join in the filing of a consolidated federal income tax return (within the meaning of sections 1501 and 1502 and the regulations thereunder) with the Parent Group. Section 1504(a); Rev. Rul. 84-79, 1984-1 C.B. 190.

CAVEATS

We express no opinion about the tax treatment of the arrangements under other provisions of the Code or regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the arrangements that are not specifically covered by the above ruling. Furthermore, no opinion is expressed concerning the treatment of any arrangements in taxable years for which income tax returns have already been filed.

PROCEDURAL STATEMENTS

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

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Maury Passman

Maury Passman
Chief, Branch 4
Office of Associate Chief Counsel
(Corporate)