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Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
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Date:
JUN 22 1999

Legend:

Corp X =

Corp Y =

Date A =

Dear

This is in response to a letter dated April 13,1999, requesting a ruling that Corp X be permitted to use the tax book method of asset valuation for purposes of apportioning interest expense for all tax years beginning on or after Date A, 1998.

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 ruling, it is subject to verification on examination.

Corp X, a domestic corporation that is an accrual basis taxpayer with a fiscal year ending on August 31, is the parent of an affiliated group of corporations that file a consolidated federal income tax return. Prior to Date A, 1998, Corp X was a subsidiary of Corp Y and was included in the Corp Y consolidated federal income tax return. On Date A, 1998, Corp Y distributed the stock in Corp X in a transaction that qualified under section 368(a)(1)(D) of the Internal Revenue Code. As a result, Corp X is no longer a member of the Corp Y affiliated group.

Corp Y, the common parent of an affiliated group that included Corp X prior to Date A, 1998, had made an election pursuant to section 1.861-9T(g)(1)(ii) of the Temporary

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Income Tax Regulations to value its assets for purposes of allocating and apportioning interest expense on the basis of the fair market value of such assets. Corp X is presently bound by this election to use the fair market value method of asset valuation. See section 1.861-8T(c)(2) of the temporary regulations. At the time that Corp Y elected to use the fair market value method of asset valuation, Corp X was not an active corporation. Corp X obtained the assets that it holds subsequent to the election by Corp Y.

For all tax years beginning on or after Date A, 1998, X now wishes to utilize the tax book value method of asset valuation, as set forth in section 1.861-9T(g) of the temporary regulations.

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

Section 1.861-8T(c)(2) of the temporary regulations also provide that taxpayers with interest expenses are required to apportion their interest expense on the basis of assets. Such apportionment must be made on the basis of either the tax book value method of those assets or the fair market value of those assets. Once a taxpayer uses the fair market value method of apportioning interest expense, the taxpayer and all related parties must continue to use such method until the Commissioner expressly authorizes a change in the method of asset valuation.

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 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 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.

Beginning with its first taxable year that it is not a member of the Corp Y affiliated group, Corp X requests permission to change to the tax book value method of asset valuation, pursuant to sections 1.861-8T(c)(2) and 1.861-9T(g)(1)(ii), for all tax years beginning on or after Date A, 1998.

The reasons for Corp X's desire to change its method of asset valuation for purposes of apportioning interest expense are stated to be: (1) the use of the tax book value method will decrease complexity and avoid potential disagreements with the Service with respect to the fair market value of assets; (2) the taxpayer will be able to avoid the cost of having fair market value studies performed; and (3) greater certainty of tax

results will be available to both the taxpayer and the Service.

Based solely upon the information submitted, the representations made, and the reasons given for this request, it is held that Corp X may change to the tax book value method of asset valuation for purposes of interest expense apportionment for tax years beginning on or after Date A, 1998.

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(j)(3) of the Code 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 representative.

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

Sincerely,

Barbara A. Felker

Barbara A. Felker
Chief, Branch 3
Office of the Associate Chief Counsel
(International)