



# FINANCIAL SERVICES

## - Insurance Tax Bulletin

PRICEWATERHOUSECOOPERS 

### Liquidation is Tax-Free May 4, 2006

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The IRS released PLR 200617024 ruling that the liquidation of an insolvent insurance company subsidiary into the parent company will be tax-free under Section 332.

Subsidiary is non-life insurance company which has qualified as an insurance company exempt from taxation under Section 501(c)(15) since 1995. Parent is a holding company which owns the stock of Subsidiary and Subsidiary2. Together, Parent, Subsidiary and Subsidiary2 are referred to as the "Companies."

Court1 placed the Companies into receivership and appointed the Commission as Permanent Receiver. The Receiver suspended the issuance of new insurance business.

Since being placed in receivership, Subsidiary's financial condition significantly improved. Subsidiary is now able to pay 100 percent of claims. Subsidiary continues to process claims and maintains insurance reserves for its unpaid reported and unreported losses. In order to implement a windup of the Companies, Receiver proposed the following transaction:

All of the remaining assets and liabilities of Subsidiary will be transferred pursuant to the plan of liquidation to Parent within 3 years after the end of the first taxable year in which the first liquidating distribution occurs. The Liquidation Order also approves the proposed plan to liquidate the Parent at some point in the future.

The IRS ruled as follows:

- (1) No gain or loss will be recognized by Parent upon the receipt of the assets and liabilities of Subsidiary under Section 332.
- (2) No gain or loss will be recognized by Subsidiary on the distribution of its assets to, or the assumption of liabilities by, Parent in complete liquidation under Section 337(a).
- (3) Parent's basis in each asset received from Subsidiary will be the same as the basis of that asset in the hands of Subsidiary immediately prior to its liquidation.
- (4) Parent's holding period in each asset received from Subsidiary will include the period during which that asset was held by Subsidiary.
- (5) Parent will succeed to and take into account the items of Subsidiary described in Section 381(c), subject to the conditions and limitations specified in Sections 381 thru 384 and the regulations thereunder.

**PwC Observes:** The IRS declined to rule on the tax treatment of Parent or Subsidiary with respect to expenses and/or liabilities paid by Subsidiary on behalf of Parent previous to being placed into receivership.

For additional information please call Anthony DiGilio at (202) 414-1702 or contact your local insurance tax professional.

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