

Revenue Ruling 79-150

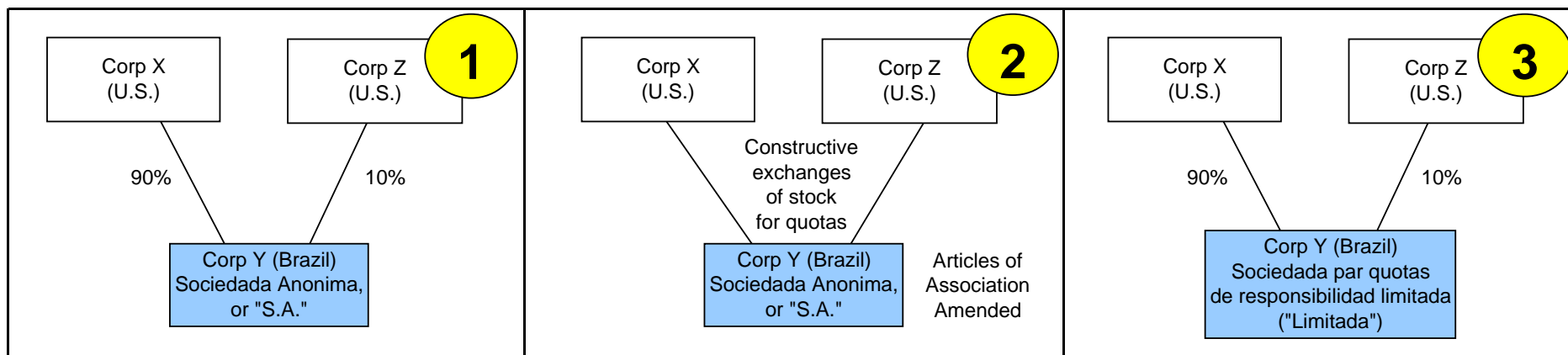
Conversion of Brazilian "S.A." to "Limitada"

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Initial Structure

Conversion

Ending Point



X and Z are unrelated domestic corporations that own 90 percent and 10 percent, respectively, of the outstanding stock of Y, a Brazilian corporation. On November 1, 1978, Y amended its articles of association to change from a public company, called a *Sociedade Anonima* ("S.A."), to a limited company, called a *Sociedade par quotas de responsabilidade limitada* ("Limitada"). The S.A. was and the Limitada is classified as an association taxable as a corporation within the meaning of section 7701(a)(3) of the Internal Revenue Code of 1954. The name of Y was changed to reflect that it is a Limitada. X and Z constructively exchanged their stock in Y, S.A. for quotas in Y, Limitada. No new stock certificates were issued to X and Z since the laws of Brazil prohibit the issuance of stock or other evidence of ownership by a Limitada. Therefore, the equity interests of X and Z were placed on the books of Y, Limitada as quotas. No amount was attributed under sections 7.367(b)-5 through 7.367(b)-12 of the temporary regulations to the stock of Y surrendered by X and Z in the transaction.

The principal differences between an S.A. and a Limitada are the financial reporting requirements of the company and the fact that the shareholder interests are represented by quotas instead of stock certificates. The quotas confer the same economic rights upon the holders as the stock, except for a restriction on the transferability of the quotas. The conversion from an S.A. to a Limitada by amendment to the articles of association is not considered the formation of a new corporation under the laws of Brazil. The transaction is a mere change of identity of Y within the meaning of section 368(a)(1)(F) and the exchange of stock in connection therewith is one described in section 354(a)(1). Since the rights under the quotas allocated to X and Z were virtually identical to the rights under the stock certificates surrendered by X and Z and both the stock and quotas were issued by the same corporate entity, Y, the exchange of stock for quotas is also one described in section 1036.

Since no amount was attributed under sections 7.367(b)-5 through 7.367(b)-12 of the temporary regulations to the stock of Y surrendered by X and Z in the transaction, the exchange described above will be considered to be described in section 1036 rather than section 354, pursuant to section 7.367(b)-4(c). Accordingly, section 367(b) does not apply to the exchange. Since under section 7.367(b)-4(c) of the temporary regulations the exchange above is to be considered exclusively under section 1036, and thus without the ambit of section 367(b), the notice requirement of section 7.367(b)-1(c) is inapplicable by its terms and therefore need not be satisfied.