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July 23, 2002

The Honorable Pamela F. Olson
Acting Assistant Secretary (Tax Policy)
Department of the Treasury
Room 1334 MT
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

The Honorable Charles O. Rossotti
Commissioner
Internal Revenue Service
Room 3000 IR
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Ms. Olson and Mr. Rossotti:

I am pleased to enclose the New York State Bar Association Tax Section Report No. 1016, which responds to the request for comments made in Revenue Ruling 2001-46, 2001-42 I.R.B. 321, dealing with multi-step acquisitions (the "Ruling").

The Ruling is the latest in a long history of rulings and cases dealing with the integration of two steps in a multi-step acquisition. The question presented in these transactions is whether a first step stock acquisition and a second step asset acquisition should be integrated (pursuant to the application of the step-transaction doctrine) in determining whether the transaction is taxable or tax-free. The Ruling concludes that the two steps should be integrated if the result would be a tax-free asset reorganization. Treasury and the IRS have asked whether under certain circumstances it would be appropriate to "turn-off" the step transaction doctrine and allow each step to be treated as separate and independent transactions.

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The enclosed report concludes that it would be appropriate to treat the first and second step of a step transaction as separate and independent transactions provided that the first step by itself is a qualified stock purchase and an election under section 338(g) or section 338(h)(10) is made with respect to such qualified stock purchase. The report concludes that such an elective regime is consistent with current law and will provide simplification and certainty to this area of the law. Moreover, the report supports issuing regulatory guidance allowing taxpayers to make such an election, and providing a set of examples based on the many rulings and the case law in this area.

Respectfully submitted,



Samuel J. Dimon
Chair

cc: Eric Solomon
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The Honorable B. John Williams, Jr.
William Alexander