

Treasury Regulation
1.1361-5(a)(4) Example 3

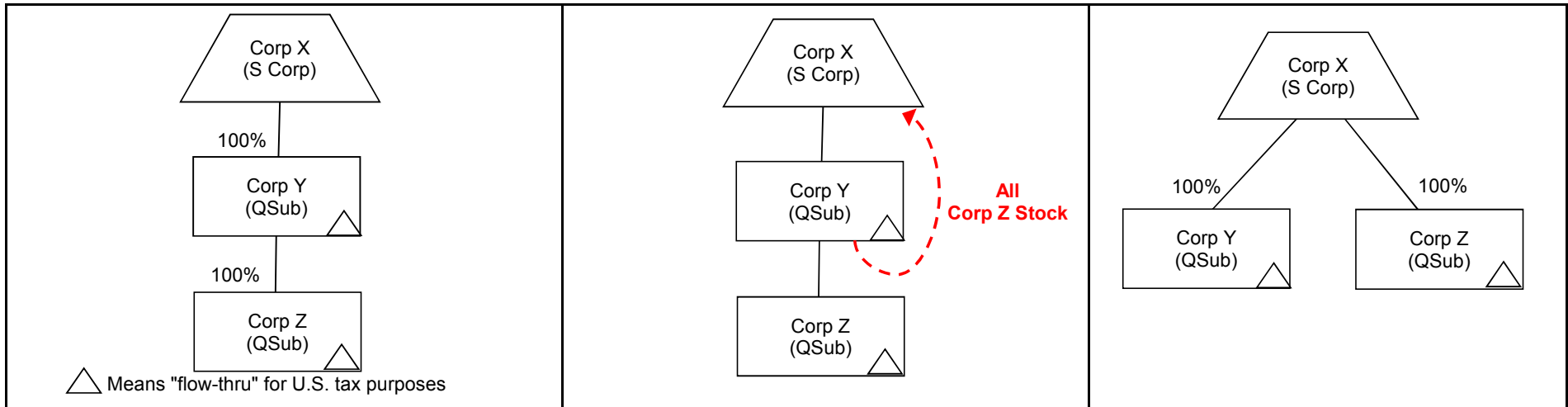
**No Termination of QSub Election on
Stock Transfer Between QSub and Parent**

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Initial Structure

Transfer of QSub Stock

Ending Point



Corp X, an S corporation, owns 100% of Corp Y, and Corp Y owns 100% of Corp Z. QSub elections are in effect with respect to Corp Y and Corp Z. Corp Y transfers all of its Corp Z stock to Corp X. Because Corp X is treated as owning the stock of Corp Z both before and after the transfer of stock, the transfer of Corp Z stock does not terminate Corp Z's QSub election. Because the stock of Corp Z is disregarded for all other Federal tax purposes, no gain is recognized under section 311.

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