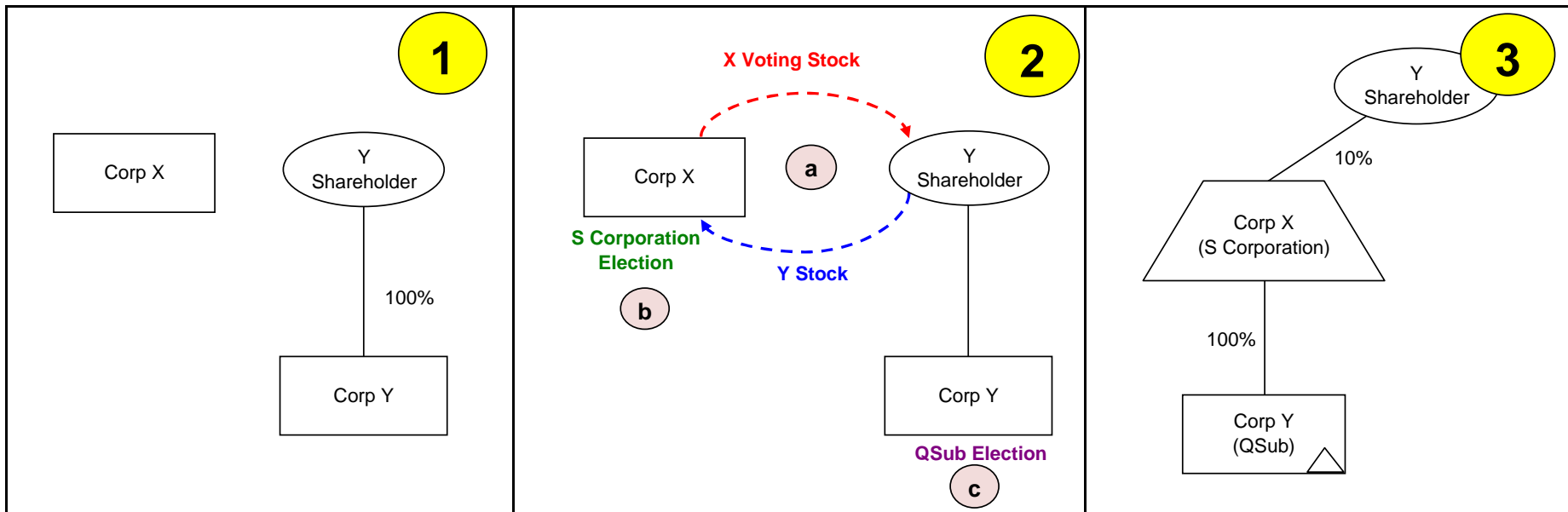


**Stock for Stock Exchange  
& QSub Election**

Initial Structure

Stock for Stock Exchange  
& QSub Election

Ending Point



This example is very similar to Revenue Ruling 67-274. Corporation X, pursuant to a plan, acquires all of the outstanding stock of corporation Y from the shareholders of Y solely in exchange for 10 percent of the voting stock of X. Prior to the transaction, Y and its shareholders are unrelated to X. Thereafter, as part of the same plan, X immediately makes an S election and a QSub election for Y. The transaction is a reorganization described in section 368(a)(1)(C), assuming the other conditions for reorganization treatment (e.g., continuity of business enterprise) are satisfied.

△ Means "flow-thru" for U.S. tax purposes

▱ Means "S" Corporation