Corporation X owns 75 percent of a solvent corporation Y, and individual A owns the remaining 25 percent of Y. As part of a plan to make a QSub election for Y, X causes Y to redeem A's 25 percent interest on June 1 for cash and makes a QSub election for Y effective on June 3. The making of the QSub election is considered to be the adoption of a plan of liquidation immediately before the deemed liquidation. The deemed liquidation satisfies the requirements of section 332.

The conclusion in this example that the liquidation qualifies as a section 332 liquidation is unexpected, given that Rev. Rul. 70-106 held that a redemption followed by an actual liquidation under similar facts did not qualify as a section 332 liquidation.

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

Means "S" Corporation

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