Reg. 1.338-3(c)(1)(ii), Example 2

**Initial Structure**

1. P
   - Shareholders
   - 100%
   - T
     - 100%
     - T1

**QSP (Jan. 1, Year 1)**

2. P
   - Shareholders
   - Cash
   - 100% of T Stock
   - T
     - 100%
     - T1

**Sale of Subsidiary (Mar. 1, Year 1)**

3. P
   - Cash
   - 100% of T Stock
   - Unrelated
   - T
     - 100%
     - T1

**338 Election for T & T1 (April 1, Year 1)**

4. Unrelated
   - 100%
   - T1
   - P
     - 100%
     - T

On January 1 of Year 1, P makes a qualified stock purchase of T. On that date, T owns the stock of T1. On March 1 of Year 1, T sells the T1 stock to an unrelated person. On April 1 of Year 1, P makes a section 338 election for T. Notwithstanding that the T1 stock was sold on March 1 of Year 1, the section 338 election for T on April 1 of Year 1 results in a qualified stock purchase by T of T1 on January 1 of Year 1.

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