S and T are solvent corporations. S owns all of the outstanding stock of T. S and P agree to undertake the following transaction: T will distribute half its assets to S, and S will assume half of T’s liabilities. Then, P will purchase the stock of T from S. S and P will jointly make a section 338(h)(10) election with respect to the sale of T. The corporations then complete the transaction as agreed.

Under section 338(a), the assets present in T at the close of the acquisition date are deemed sold by old T to new T. The transactions are treated in the same manner as if they had actually occurred. Because S and P had agreed that, after T’s actual distribution to S of part of its assets, S would sell T to P pursuant to an election under section 338(h)(10), T is deemed to have adopted a plan of complete liquidation under section 332. T’s actual transfer of assets to S is treated as a distribution pursuant to that plan of complete liquidation.

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