

**Revenue Ruling 2004-85,  
Situation 1**

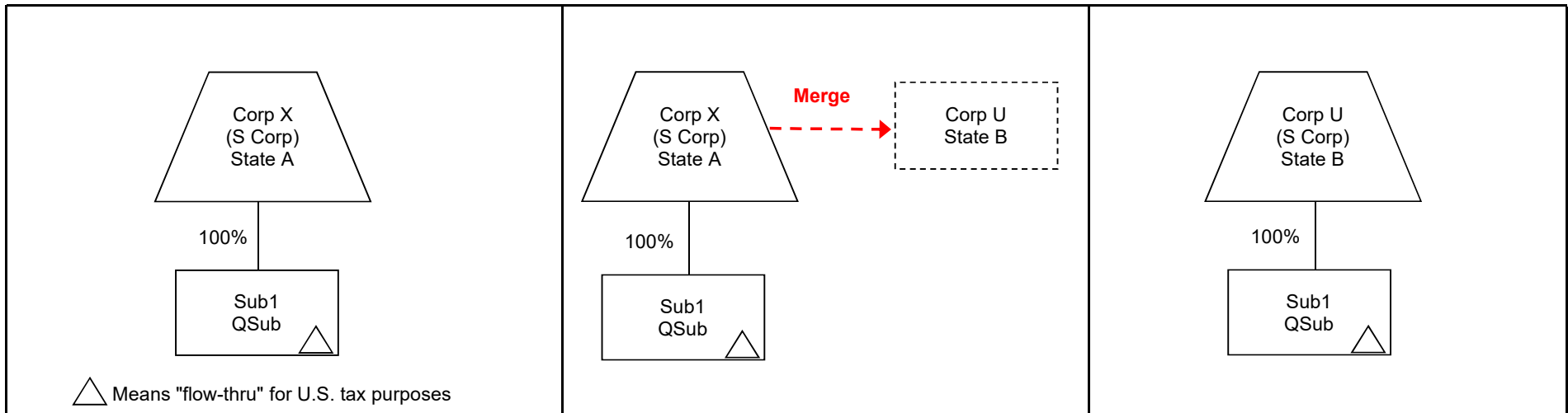
**"F" Reorganization of an  
S Corp Did Not Terminate  
QSub Election of Subsidiary**

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**Initial Structure**

**Merger into State B Newco**

**Ending Point**



X is a State A S corporation that owns 100% of the stock of Sub 1, a corporation that X has elected to treat as a QSub. The shareholders of X form U, a State B corporation. X merges with and into U in a transaction qualifying as a reorganization under Sec. 368(a)(1)(F). The shareholders of X own 100% of the stock of U and U is eligible to be an S corporation under Sec. 1361(b)(1).

Under Rev. Rul. 64-250, U will be treated as a continuation of X. U, therefore, will be an S corporation immediately after the merger. Because U is treated as a continuation of X, the reorganization does not terminate X's election to treat Sub 1 as a QSub.

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