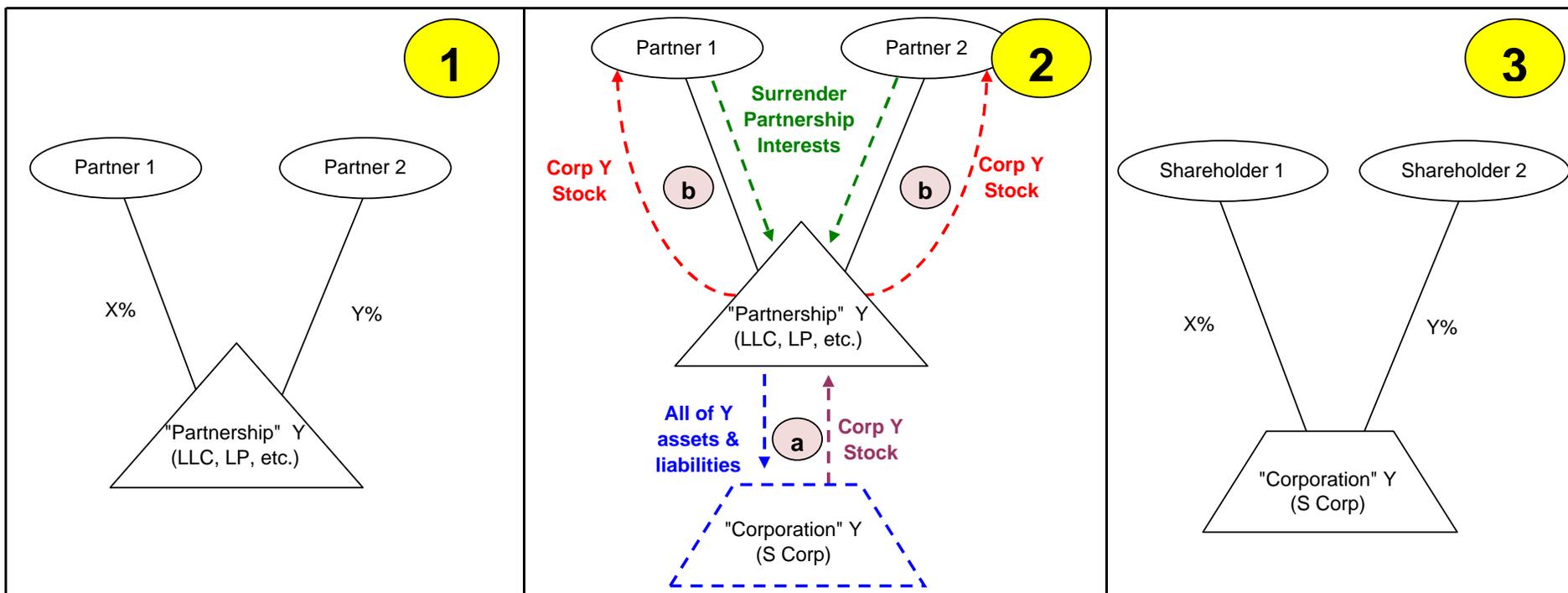


**Corporate Conversion Election Jan. 1, 2010
(Deemed Transfers on Dec. 31, 2009)**

Initial Structure

Ending Point



On January 1, 2009, Y, a calendar year taxpayer, is organized in State as an unincorporated entity that is classified as a partnership for federal tax purposes. Y converts into a corporation under a state law formless conversion statute, effective January 1, 2010. As a result of the conversion, Y is classified as a corporation for federal tax purposes. On February 1, 2010, Y files an election under section 1362(a) to be taxed as an S corporation, effective January 1, 2010. There is no person who held stock in Y on January 1, 2010, who does not hold stock at the time the election is made. Rev. Rul. 2004-59 provides that the conversion of a partnership into a state law corporation under a state law formless conversion statute is treated in the same manner as if the entity had made an election to be treated as an association under Reg. 301.7701-3(c)(1)(i). Therefore, Y is deemed to contribute all of its assets and liabilities to the corporation in exchange for stock in the corporation, and immediately thereafter Y liquidates by distributing the stock of the corporation to its partners. The partnership will not be deemed to own the stock of the corporation during any portion of the corporation's first taxable year beginning January 1, 2010, and Y is eligible to elect to be an S corporation effective January 1, 2010. Additionally, because the partnership's taxable year ends immediately before the close of the day on December 31, 2009, and the corporation's first taxable year begins at the start of the day on January 1, 2010, the deemed steps will not cause Y to have an intervening short taxable year in which it was a C corporation.