Corp P owned more than eighty percent of the outstanding stock of Corp S. The balance of the outstanding stock of S was publicly held. P wanted to have the business of S conducted by a wholly owned subsidiary. In order to accomplish this result, S was merged into P. The stock of S owned by P was cancelled and the minority shareholders of S received shares of common stock of P in exchange for their S stock. P then transferred all of the assets received from S, subject to liabilities, to its new subsidiary, Corp X.

Section 332 provides that no gain or loss will be recognized on the receipt by a corporation of property distributed in complete liquidation of a subsidiary corporation under certain prescribed statutory provisions. Since the assets of S were immediately transferred by P to X, there was no complete liquidation of S within the meaning of section 332. However, the fact that P owned more than eighty percent of the stock of S does not prevent the transfer of the assets of S to P from qualifying as a statutory merger, where such assets are transferred to another subsidiary. Accordingly, the merger of S into P followed by the transfer to X of all of the assets of S, subject to its liabilities, is a statutory merger within the meaning of sections 368(a)(1)(A) and 368(a)(2)(C) of the Code.