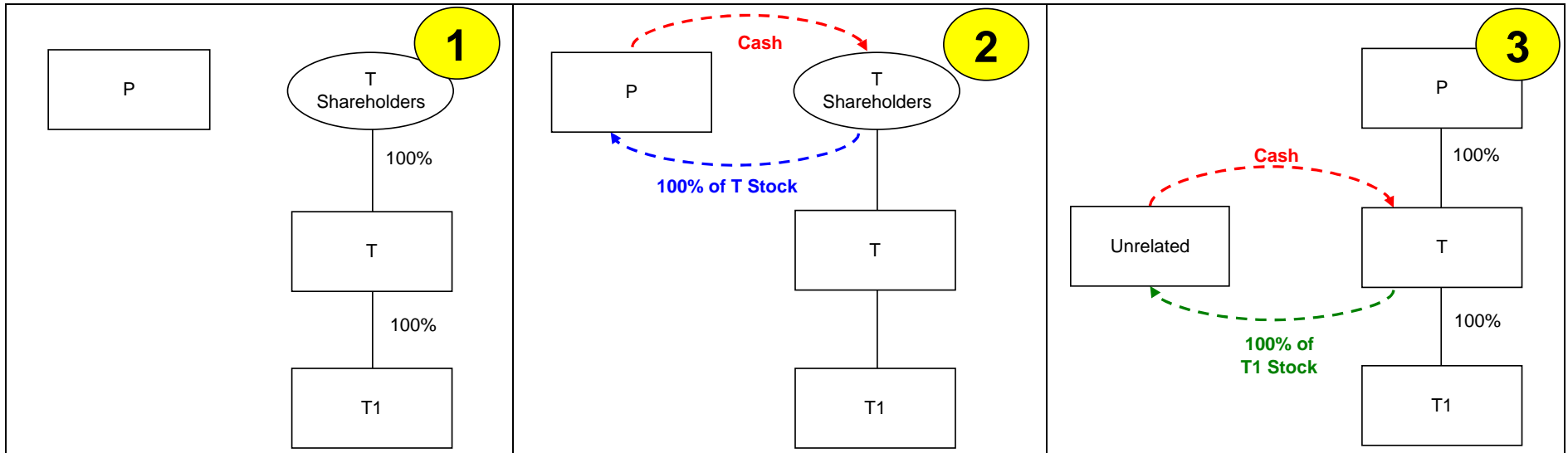


**Purchase of Target &  
Sale of Target's Subsidiary**

Initial Structure

QSP (Jan. 1, Year 1)

Sale of Subsidiary (Mar. 1, Year 1)



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.

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

