

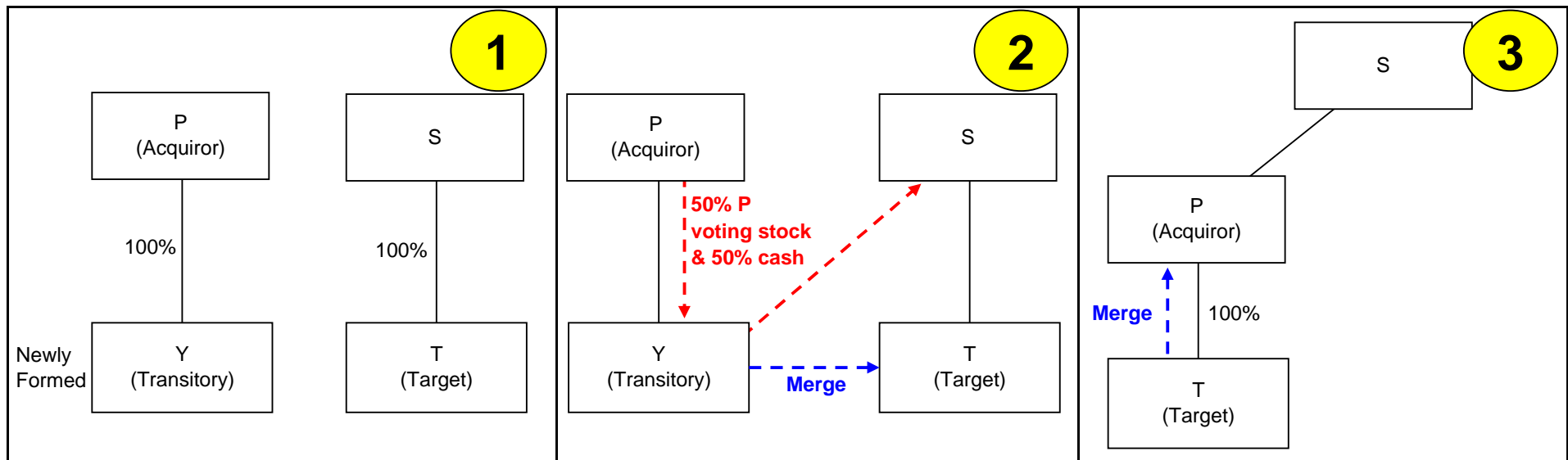
Reg. 1.338(h)(10)-1(e), Example 12

**Stock Acquisition Merger
Followed By Upstream Merger -
With 338(h)(10) Election**

Initial Structure

Stock Acquisition Merger

Upstream Merger



P owns all the stock of Y, a newly formed subsidiary. S owns all the stock of T. Each of P, S, T and Y is a domestic corporation. P acquires all of the T stock in a statutory merger of Y into T, with T surviving. In the merger, S receives consideration consisting of 50% P voting stock and 50% cash. Viewed independently of any other step, P's acquisition of T stock constitutes a qualified stock purchase. As part of the plan that includes P's acquisition of the T stock, T subsequently merges into P. Viewed independently of any other step, T's merger into P qualifies as a liquidation described in section 332. Absent the application of these special rules, the step transaction doctrine would apply to treat P's acquisition of the T stock and T's merger into P as an acquisition by P of T's assets in a reorganization described in section 368(a). P and S make a section 338(h)(10) election with respect to P's purchase of the T stock.

Pursuant to the special rules of Reg. 1.338(h)(10)-1(c)(2), as a result of the election under section 338(h)(10), for all Federal tax purposes, P's acquisition of the T stock is treated as a qualified stock purchase and P's acquisition of the T stock is not treated as part of a reorganization described in section 368(a).

Ending Point

