

**Treasury Regulation
1.1361-5(a)(4) Example 2**

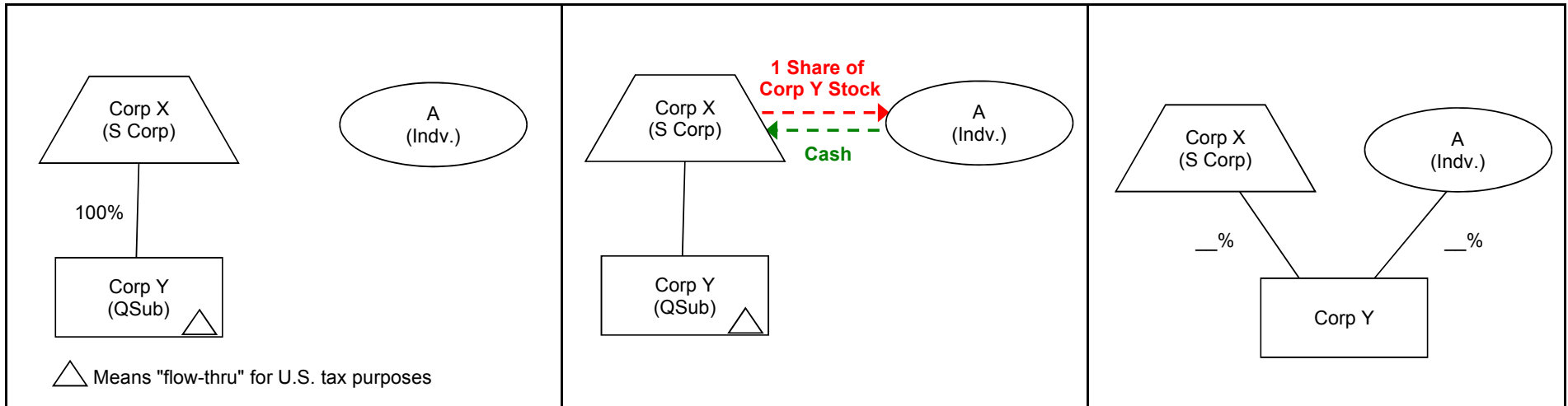
**Termination of QSub Election
due to Transfer of QSub Stock**

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Initial Structure

Sale of QSub Stock

Ending Point



Corp X, an S corporation, owns 100% of Corp Y. A QSub election is in effect with respect to Y. On December 10, 2002, Corp X sells one share of Corp Y to A, an individual. Because Corp X no longer owns 100% of Corp Y, Corp Y no longer qualifies as a QSub at the close of December 10, 2002.

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