**8796. What is a qualified subchapter S subsidiary (QSSS)?**

An S corporation may own a qualified subchapter S subsidiary (QSSS). A QSSS is a domestic corporation that is not an ineligible corporation (see Q 8789), if 100 percent of its stock is owned by the parent S corporation and the parent S corporation elects to treat it as a QSSS.

A QSSS is generally not treated as a separate corporation and its assets, liabilities, and items of income, deduction, and credit are treated as those of the parent S corporation.[[1]](#footnote-1) If the S corporation or its QSSS is a bank, special rules provide for the recognition of a QSSS as a separate entity for tax purposes.[[2]](#footnote-2) A QSSS will also be treated as a separate corporation for purposes of employment taxes and certain excise taxes.[[3]](#footnote-3) For tax years beginning after 2014, a QSSS will be treated as a separate corporation for purposes of the shared responsibility payments under the Affordable Care Act.[[4]](#footnote-4)

If a QSSS ceases to meet the above requirements, it will be treated as a new corporation acquiring all assets and liabilities from the parent S corporation in exchange for its stock. If the corporation’s status as a QSSS terminates, the corporation is generally prohibited from being a QSSS or an S corporation for five years.[[5]](#footnote-5) In certain cases following a termination of a corporation’s QSSS election, the corporation may be allowed to elect QSSS or S corporation status without waiting five years if, immediately following the termination, the corporation is otherwise eligible to make an S corporation election or QSSS election, and the election is effective immediately following the termination of the QSSS election. For example, this rule may apply when an S corporation sells all of its QSSS stock to another S corporation, or an S corporation distributes all of its QSSS stock to its shareholders, and the former QSSS makes an S election.[[6]](#footnote-6)

1. . IRC Sec. 1361(b)(3). [↑](#footnote-ref-1)
2. . Treas. Reg. §1.1361-4(a)(3). [↑](#footnote-ref-2)
3. . Treas. Reg. §1.1361-4(a)(7) and §1.1361-4(a)(8). [↑](#footnote-ref-3)
4. Treas. Reg. §1.1361-4(a)(8)(E). [↑](#footnote-ref-4)
5. . IRC Sec. 1361(b)(3). [↑](#footnote-ref-5)
6. . Treas. Reg. §1.1361-5(c). [↑](#footnote-ref-6)