

Section 302 Distributions in Redemption of Stock

Code § 302(a) provides that if a corporation redeems its stock in a redemption that meets one of the requirements in Code § 302(b)(1), (2), (3), or (4), the redemption will be treated as a sale or exchange. If the redemption does not meet one of the requirements in Code § 302(b), Code § 302(d) states that the redemption will be treated as a distribution to which the Code § 301 dividend rules apply.

Individual shareholders often want distributions to meet one of the Code § 302(b) requirements, thereby achieving sale or exchange treatment. This typically allows for recovery of basis and capital gain treatment. Corporate shareholders, on the other hand, often want dividend treatment in order to take advantage of the dividends received deduction.

Disclaimer

This flowchart has been extensively reviewed to be as complete and accurate as possible. However, due to the complexity of these rules, this flowchart undoubtedly includes errors and omissions. You should consult a tax professional for individual advice regarding your own situation. This flowchart is not updated for changes in the tax laws and should not be relied upon for any purpose whatsoever.

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Redemption 317(b)

Complete Liquidation (331/332)

Complete Termination 302(b)(3)

Waiver of Family Attribution 302(b)(3) & (c)(2)

Partial Liquidation 302(b)(4)

306 Stock

Substantially Disproportionate 302(b)(2)

Not EED 302(b)(1)

To Pay Death Taxes 303

