

Section 302 Distributions in Redemption of Stock

Redemption 317(b)

Complete Liquidation (331/332)

Complete Termination 302(b)(3)

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

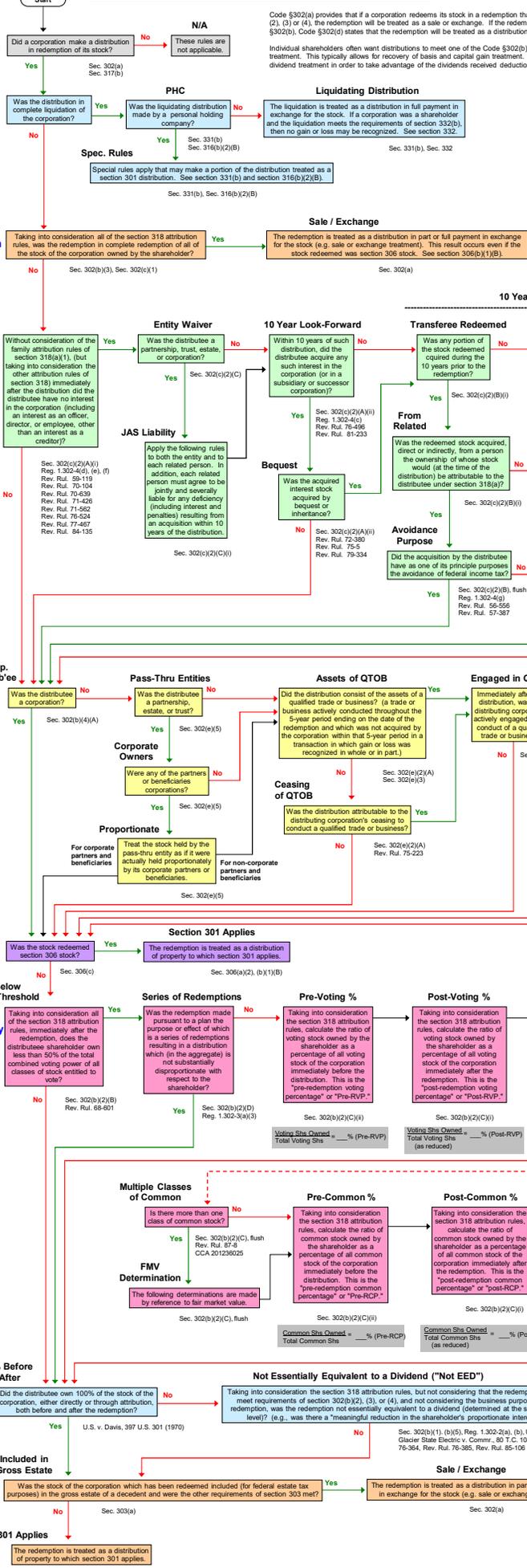
Partial Liquidation 302(b)(4)

306 Stock

Substantially Disproportionate 302(b)(2)

Not EED 302(b)(1)

To Pay Death Taxes 303



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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10 Year Look-Back

Entity Waiver

Without consideration of the family attribution rules of section 318(a)(1), (but taking into consideration the other attribution rules of section 318) immediately after the distribution did the distributee have no interest in the corporation (including an interest as an officer, director, or employee, other than an interest as a creditor)?

Yes: Sec. 302(c)(2)(A)(i) Reg. 1.302-4(d), (e), (f) Rev. Rul. 58-115 Rev. Rul. 70-104 Rev. Rul. 70-639 Rev. Rul. 71-425 Rev. Rul. 71-562 Rev. Rul. 76-524 Rev. Rul. 77-467 Rev. Rul. 84-135

No: Was the distributee a partnership, trust, estate, or corporation? Yes: Sec. 302(c)(2)(C)

No: Within 10 years of such distribution, did the distributee acquire any such interest in the corporation or in a subsidiary or successor corporation? Yes: Sec. 302(c)(2)(A)(ii) Reg. 1.302-4(c) Rev. Rul. 74-496 Rev. Rul. 81-233

No: Was any portion of the stock redeemed acquired during the 10 years prior to the redemption? Yes: Sec. 302(c)(2)(B)(i)

No: Was the redeemed stock acquired, directly or indirectly, from a person the ownership of whose stock would (at the time of the distribution) be attributable to the distributee under section 318(a)? Yes: Sec. 302(c)(2)(B)(ii)

No: Was the acquisition by the distributee have as one of its principal purposes the avoidance of federal income tax? Yes: Sec. 302(c)(2)(B), flush Reg. 1.302-4(g) Rev. Rul. 56-566 Rev. Rul. 57-387

No: Did the disposition by the distributee have as one of its principal purposes the avoidance of federal income tax? Yes: Sec. 302(c)(2)(B), flush Reg. 1.302-4(g) Rev. Rul. 56-566 Rev. Rul. 57-387

No: Did the distributee file an agreement to notify the IRS of an acquisition within the 10 year period? Yes: Sec. 302(c)(2)(A)(iii) Reg. 1.302-4(a)

No: The redemption is treated as a distribution in part or full payment in exchange for the stock (e.g. sale or exchange treatment). This result occurs even if the stock redeemed was section 306 stock. See section 306(b)(1)(B).

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