**Problem Set #8 Problem Set**

1. Allison, an individual, owns 50 of the 100 outstanding shares of common stock of X (an entity treated as a corporation for tax purposes). Allison has a basis in each share of $1. X has no other class outstanding. The remaining 50 shares of X are owned by person unrelated to A within the meaning of Section 318. As of January 1, Year3, X has accumulated earnings and profits of $180. During year 3, X has no current earnings and profits. On March 31, Year3, X redeems 40 of A’s 50 shares of stock for $90.
   1. What are the tax consequences to Allison as a result of the transaction?
   2. If no other events happen during year 3, what are X’s accumulated earnings and profits as of January 1, Year4?
2. Assume the same facts as in question (1) except that 40 shares held by Allison are redeemed for $60 rather than $90.
   1. What are the tax consequences to A as a result of the transaction?
   2. If no other events happen during year 3, what are X’s accumulated earnings and profits as of January 1, Year4?
3. Assume the same facts as in question (1) except that the shares of X that are not owned by Allison are owned by Allison’s spouse, Bob. Also, assume the redemption is not in partial liquidation of the distributing corporation within the meaning of Section 302(b)(4).
   1. What are the tax consequences to Allison as a result of the transaction?
   2. If no other events happen during year 3, what are X’s accumulated earnings and profits as of January 1, Year4?