**Problem Set #7: Section 302 (b) Redemptions**

1. XtraCo, an entity treated as a corporation for tax purposes, has 5,000 shares of voting common stock outstanding. 2,500 of the shares are owned by Abby, an individual, and 2,500 of the shares are owned by Ben, an individual unrelated to Abby within the meaning of Section 318. XtraCo has $1,000,000 of earnings and profits. Abby’s basis in each share of stock is $1000, and Ben’s basis in each share of stock is $1,000. Abby and Ben want to receive $500,000 of cash, each, from XtraCo. What are the tax consequences to Abby and Ben of the following transactions?
   1. XtraCo distributes $500,000 to each of Abby and Ben with respect to stock owned by Abby and Ben.
   2. XtraCo redeems 500 shares held by each of Abby and Ben for $1000 of cash per share.
2. Same facts as Question #1. X redeems shares from A for cash. There is no plan or intent for X to redeem any of the stock held by B. Will the redemption qualify as an exchange under Section 302(b)(2) if:
   1. X redeems 501 shares held by A?
   2. X redeems 834 shares held by A?
3. XtraCo, an entity treated as a corporation for tax purposes, had outstanding 5,100 shares of voting common stock and 4,900 shares of non-voting common stock. All the non-voting common stock is owned by Abby, an individual. Abby holds no voting common stock in XtraCo, either directly or constructively within the meaning of Section 318. XtraCo redeems 2,000 shares of the non-voting common stock held by Abby for cash. There was no plan or intent for XtraCo to redeem any of the stock held by shareholders other than Abby. Will the redemption qualify as an exchange under Section 302(b)(2)?
4. XtraCo, an entity treated as a corporation for tax purposes, had outstanding 5,100 shares of voting common stock and 4,900 shares of voting preferred stock. The common and preferred stock have equal voting rights. Each share of common and preferred stock has one vote. The preferred stock is entitled to a cumulative nine percent annual dividend and is not a participating stock. All the preferred stock is owned by Abby, an individual. Abby holds no common stock in XtraCo, either directly or constructively within the meaning of Section 318. XtraCo redeems 2,000 shares of the preferred stock held by Abby for cash. There was no plan or intent for XtraCo to redeem any of the stock held by shareholders other than Abby. Will the redemption qualify as an exchange under Section 302(b)(2)?
5. XtraCo, an entity treated as a corporation for tax purposes, had outstanding 10 shares of voting common stock and 30 shares of nonvoting common stock. The fair market values of a share of voting common stock and a share of nonvoting common stock are approximately equal. Abby owned 6 shares of XtraCo voting common stock and all the nonvoting common stock. The remaining 4 shares of the XtraCo voting common stock were held by persons unrelated to Abby within the meaning of Section 318. XtraCo redeemed 3 shares of voting common stock and 27 shares of nonvoting common stock from Abby in a single transaction for cash. There was no plan or intent for XtraCo to redeem any of the stock held by shareholders other than A. Will the redemption qualify as an exchange under Section 302(b)(2)?
6. XtraCo, an entity treated as a corporation for tax purposes, had outstanding 5,000 shares of voting common stock. 2,500 of the shares were owned by Abby, an individual, and 2,500 of the shares were owned by Ben, an individual unrelated to Abby within the meaning of Section 318. XtraCo redeems 1000 shares from Abby for cash. One month later, XtraCo redeems 1000 shares from Ben for cash. Will the redemptions qualify as exchanges under Section 302(b)(2)?
7. Abby, an individual, owns 50% of corporation XtraCo’s stock. The other 50% is owned by a partnership (P) in which Abby has a 20% interest. Ben, another individual, owns the remaining 80% interest in P. What percentage of stock in XtraCo is considered to be owned by Abby, P, and Ben, taking into account the Section 318 attribution rules?
8. Alex, Bella, Casey, and Dylan, four individuals, each own 25% of corporation X’s stock. Corporation X, in turn, owns 100% of Corporation Y’s stock. Bella and Casey are siblings and are each children of Alex. Dylan is Bella’s spouse. What percentage of stock in X and stock in Y is considered to be owned by Alex, Bella, Casey and Dylan, taking into account the Section 318 attribution rules?
9. Alex, an individual, owns 30% of the stock in corporation XtraCo. Alex also owns 50% of the stock in corporation Y. Corporation Y owns 50% of the stock in Corporation Z. How much stock in X, if any, is considered as owned by Z, taking into account the Section 318 attribution rules?
   1. What if, instead, Y owns 40% of the stock in Corporation Z?
   2. What if, instead, Y owns 40% of Z but Z is a partnership rather than a corporation?
10. Alex, an individual, owns 50% of the stock in corporation X. X owns 30% of the stock in corporation Y. How much stock in Y is considered as owned by Alex, taking into account the Section 318 attribution rules?
    1. What if, instead, Alex owns 40% of the stock in Corporation X?
    2. What if, instead, Alex owns 40% of X but X is a partnership rather than a corporation?
11. Alex, an individual, owns 50 of the 100 outstanding common shares of corporation X. X has no other shares outstanding. X owns 100% of corporation Y. Corporation Y owns 40 of the 100 outstanding common shares of Corporation Z. Alex owns the remaining 60 common shares of Z. Z has no other shares outstanding. If Z redeems the 60 shares in Z held by Alex, will the redemption qualify as an exchange under Section 302(b)(2) or Section 302(b)(3)? Compare this to what would happen in the absence of Section 302(c).
12. H owns 40 shares of corporation X. W (H’s wife) owns 10 shares of corporation X. A (an unrelated individual) owns 50 shares of corporation X. X redeems 23 of H’s shares and 2 of W’s shares. Will the redemption qualify as an exchange under Section 302(b)(2) with respect to H? With respect to W? Compare this to what would happen in the absence of Section 302(c).
13. Alex, an individual, owns 100% (100 shares) of the stock of corporation X. Alex has a $10 basis in each share of stock. At a time when X has $5,000 of earnings and profits, X redeems 50 shares held by Alex for $5,000. The redemption is not a partial liquidation of X. What is Alex’s basis in the 50 shares that Alex continues to hold?
    1. What would the answer be to the question above if X had $4,800 of earnings and profits rather than $5,000?
14. H, an individual, owns 50% (50 shares) of the stock of corporation X. W, H’s wife, own 50% (50 shares) of the stock in X. H has a $100 basis, in total, in his shares. W has a $70 basis, in total, in her shares. At a time when X has $5,000 of earnings and profits, X redeems 50 shares held by H for $5,000. The redemption is not a partial liquidation of X. H does not waive the family attribution rules. What is W’s basis in the 50 shares that W continues to hold?
    1. Assume the same facts except that X redeems 49 shares held by H for $5,000. What is H’s basis in the one share H continues to hold? What is W’s basis in the 50 shares W continues to hold?