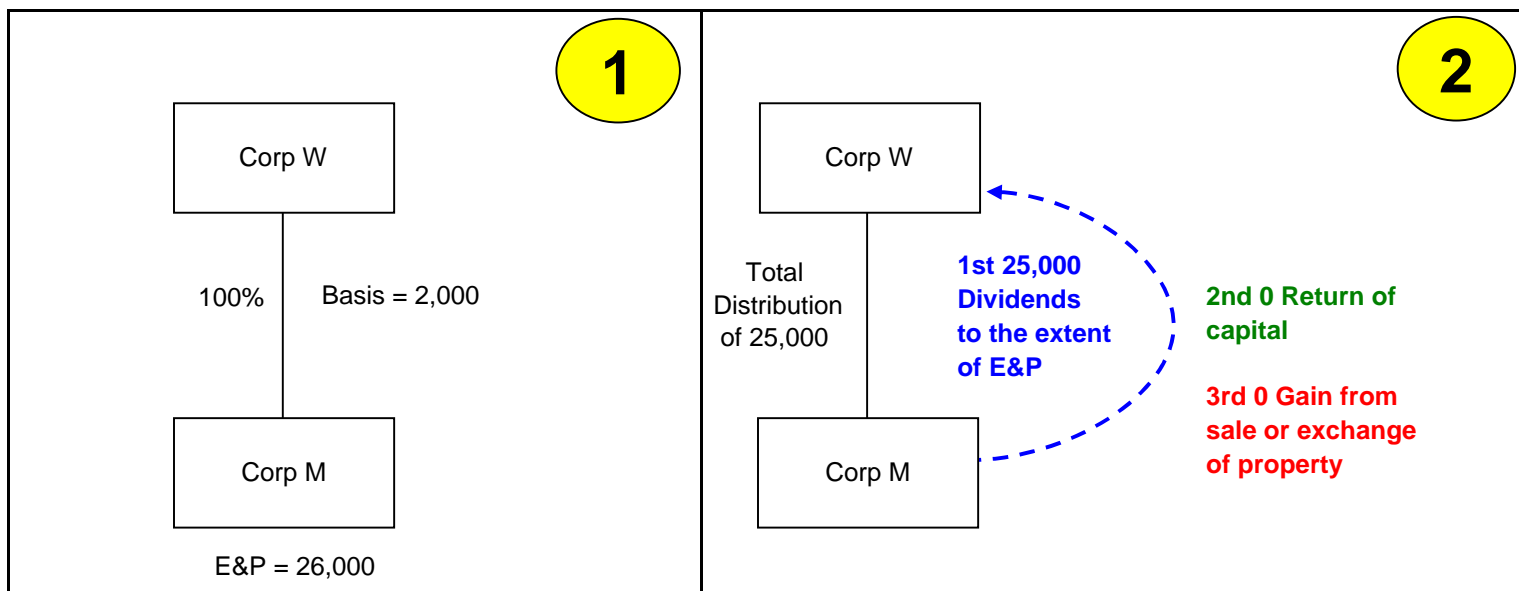


**Section 301 Distribution
Less Than E&P
Results in Dividend Only**

Initial Structure

Distribution



On January 1, 1955, W, a corporation owned all of the stock of Corporation M with an adjusted basis of \$2,000. During 1955, A received distributions from Corporation M totaling \$25,000, consisting of \$10,000 in cash and listed securities having a basis in the hands of Corporation M and a fair market value on the date distributed of \$15,000. Corporation M's taxable year is the calendar year. As of December 31, 1954, Corporation M had earnings and profits accumulated after February 28, 1913, in the amount of \$26,000, and it had no earnings and profits and no deficit for 1955. The total \$25,000 will be treated as a dividend to Corporation W since the earnings and profits of Corporation M (\$26,000) are in excess of the amount of the distribution.