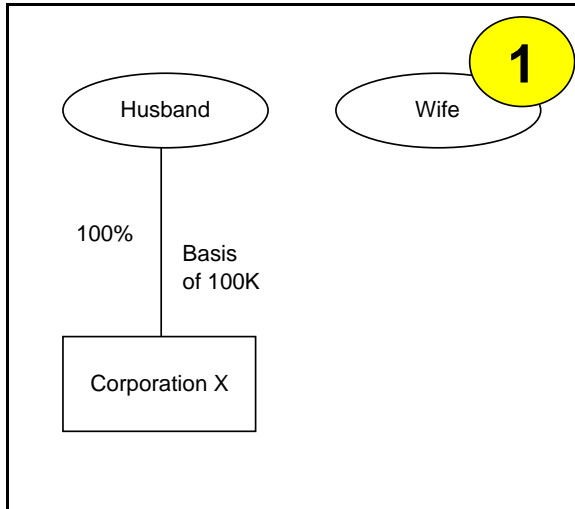


## Reg. 1.302-2(c), Example 2

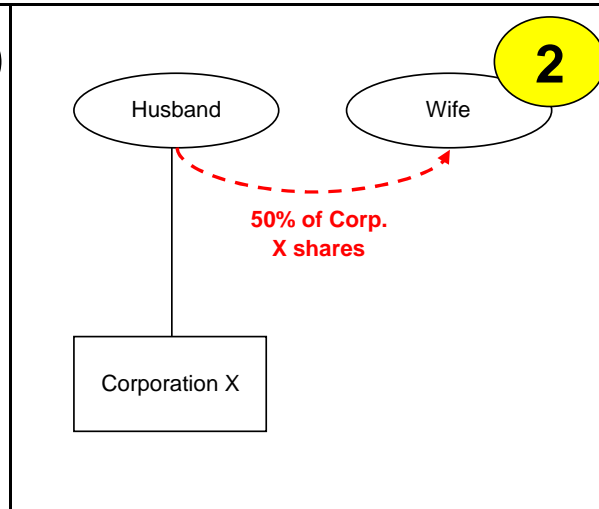
### Husband's Stock Redeemed - Basis Transfers to Wife

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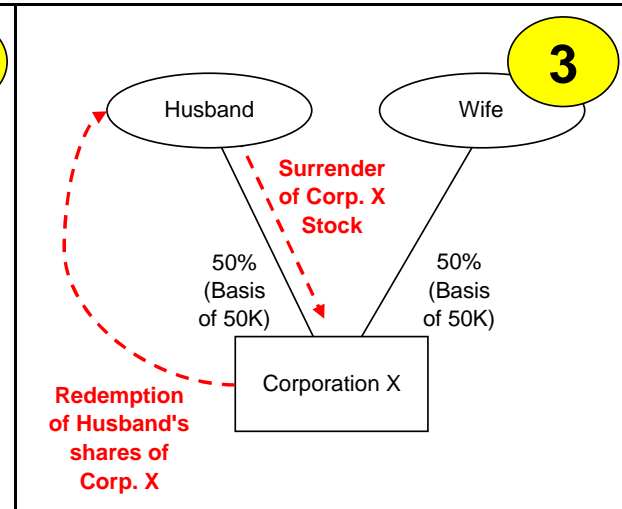
#### Initial Structure



#### Gift to Wife (1951)



#### Husband's Shares Redeemed (1955)



Reg. 1.302-2(c) provides that "[i]n any case in which an amount received in redemption of stock is treated as a distribution of a dividend, proper adjustment of the basis of the remaining stock will be made with respect to the stock redeemed."

The redemption in step 3 above was treated wholly as a dividend. Thus, none of the distribution was return of basis under section 301(c)(2). If Husband continued to own any shares of Corporation X, his basis in the stock of Corporation X would remain at 50K. Because Husband no longer owns any shares in Corporation X, Husband's basis transfers to Wife. Wife has a basis in the shares of Corporation X of 100K.

#### Ending Point

