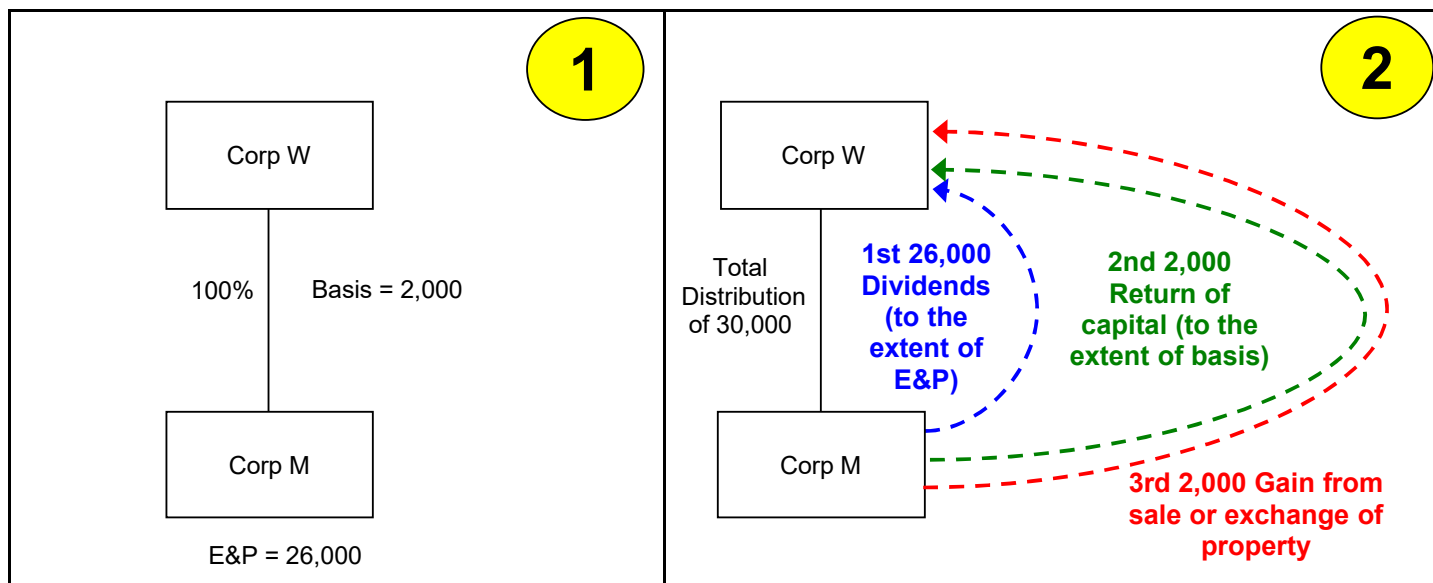


**Section 301 Distribution  
Greater Than  
E&P and Stock Basis**

Initial Structure

Distribution



Corporation M, formed in 1998, has never been an acquiring corporation in a transaction to which section 381(a) applies. On January 1, 2021, A, an individual, owned all of the stock of Corporation M, consisting of a single share with an adjusted basis of \$2,000. During 2021, A received distributions from Corporation M totaling \$30,000, 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 \$20,000. Corporation M's taxable year is the calendar year. As of December 31, 2020, Corporation M had accumulated earnings and profits in the amount of \$26,000, and it had no earnings and profits and no deficit for 2021. Of the \$30,000 received by A, \$26,000 is treated as an ordinary dividend; of the remaining \$4,000, \$2,000 is applied against and reduces the adjusted basis of A's stock under section 301(c)(2), and the \$2,000 in excess of the adjusted basis of A's stock is treated as gain from the sale or exchange of property under section 301(c)(3)(A). If A immediately sells the stock in Corporation M, the basis for determining gain or loss on the sale will be zero.