Reg. 1.302-2(c), Example 2

**Initial Structure**

1. Husband (100% Basis of 100K) -> Corporation X
2. Gift to Wife (1951)
   - Husband -> Corporation X
   - 50% of Corp. X shares
3. Husband's Shares Redeemed (1955)
   - Husband -> Corporation X
   - Surrender of Corp. X Stock
   - 50% (Basis of 50K)
   - Redemption of Husband's shares of Corp. X
   - 50% (Basis of 50K)

**Ending Point**

4. Husband (100% Basis of 100K) -> Corporation X

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.

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