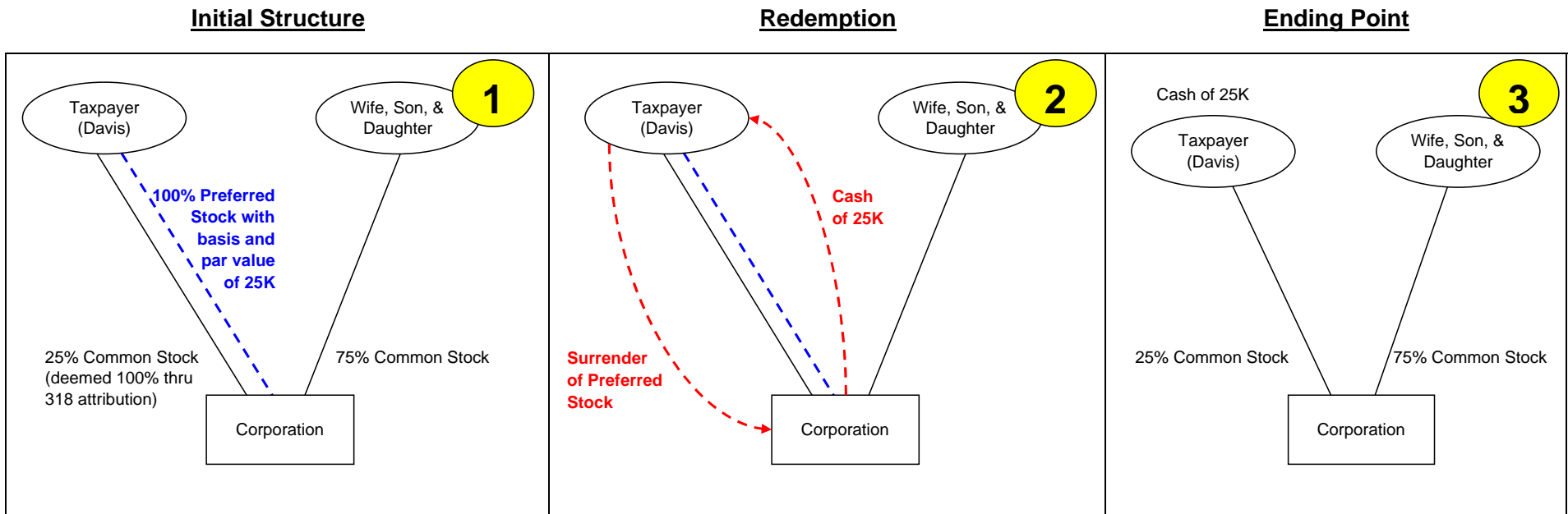


**Redemption of Preferred Stock Treated as Dividend**



The Court held that the section 318 attribution rules apply for determining whether a redemption is not essentially equivalent to a dividend under section 302(b)(1). Thus, Davis was deemed to be the owner of all of the corporation's shares both before and after the redemption.

When a sole stockholder (or deemed so through section 318 attribution) causes part of his shares to be redeemed by the corporation, such a redemption is always essentially equivalent to a dividend. The business purpose of a transaction is irrelevant in determining dividend equivalence under section 302(b)(1).

[Click here for a flowchart of section 302 redemptions](#)