Revenue Ruling 69-608, Situation 1

A and B are unrelated individuals who own all of the outstanding stock of corporation X. A and B enter into an agreement that provides in the event B leaves the employ of X, he will sell his X stock to A at a price fixed by the agreement. The agreement provides that within a specified number of days of B’s offer to sell, A will purchase at the price fixed by the agreement all of the X stock owned by B. B terminates his employment and tenders the X stock to A. Instead of purchasing the stock himself in accordance with the terms of the agreement, A causes X to assume the contract and to redeem its stock held by B. In this case, A had a primary and unconditional obligation to perform his contract with B at the time the contract was assigned to X. Therefore, the redemption by X of its stock held by B will result in a constructive distribution to A. See Sullivan v. U. S., 244 F. Supp. 605 (1965), affirmed, 363 F. 2d 724 (1966), certiorari denied, 387 U.S. 905 (1967), rehearing denied, 388 U.S. 924 (1967).

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