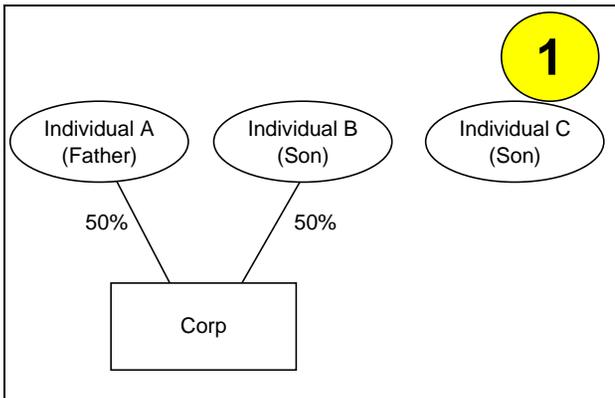
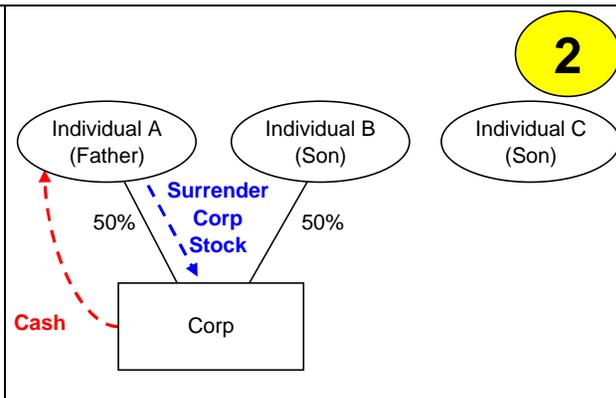


**Section 302(b)(3) Complete Termination:
Disregard of Second Son's Acquisition**

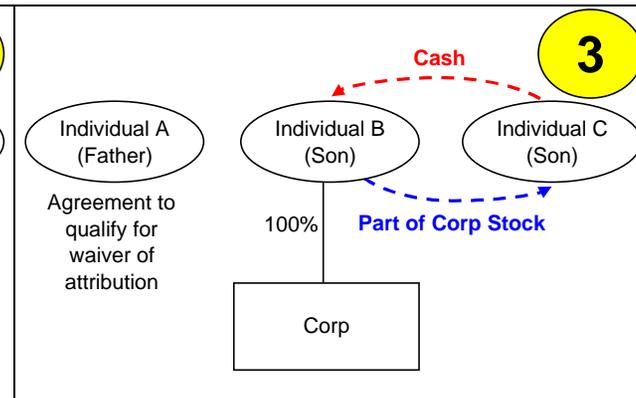
Initial Structure



Redemption



Son's Purchase



A and his son, B, each owned fifty percent of the stock of a corporation since the date of incorporation. The corporation redeemed all of the stock held by A for cash. A severed all interest in the corporation as an officer, director, and employee. He reported the gain on the redemption as gain from a sale or exchange in accordance with section 302(a), and filed the agreement specified in section 302(c)(2)(A)(iii) with his income tax return for that year so as to qualify for waiver of attribution to him of the stock of the corporation owned by his son, B, for purposes of section 302(b)(3). Subsequent to the redemption, and within ten years thereafter, A's other son, C, purchased for cash some of B's stock so that both B and C were the shareholders of the corporation.

In determining whether there is a complete termination of interest in a redemption intended to qualify under section 302(b)(3), the attribution rules of section 318(a)(1) (relating to constructive ownership of stock owned by members of a family) are waived if the requirements of section 302(c) are met. The acquisition of an interest referred to in section 302(c)(2)(A)(ii) has the effect of making section 302(b)(3) inapplicable to the prior redemption and extending the statutory period for assessing any deficiency which may result from a determination of the effect of the redemption.

Clause (ii) of section 302(c)(2)(A) refers to the acquisition by the distributee of an interest in the corporation described in clause (i) of that section. Clause (i) pertains to an interest of the distributee in the corporation

determined without regard to the application of the family attribution rules of section 318(a)(1) because the filing of the agreement described in clause (iii) makes these rules inapplicable. Therefore, any interest in the corporation arising during the ten-year period following the redemption of A's stock which would be attributed to A solely by reason of the application of the family attribution rules of section 318(a)(1) is to be disregarded for purposes of section 302(c)(2)(A)(ii). Accordingly, the acquisition of stock of the corporation by A's son, C, within ten years after the date of redemption of A's stock, was not an acquisition of an interest by A within the meaning of section 302(c)(2)(A)(ii).

Ending Point

