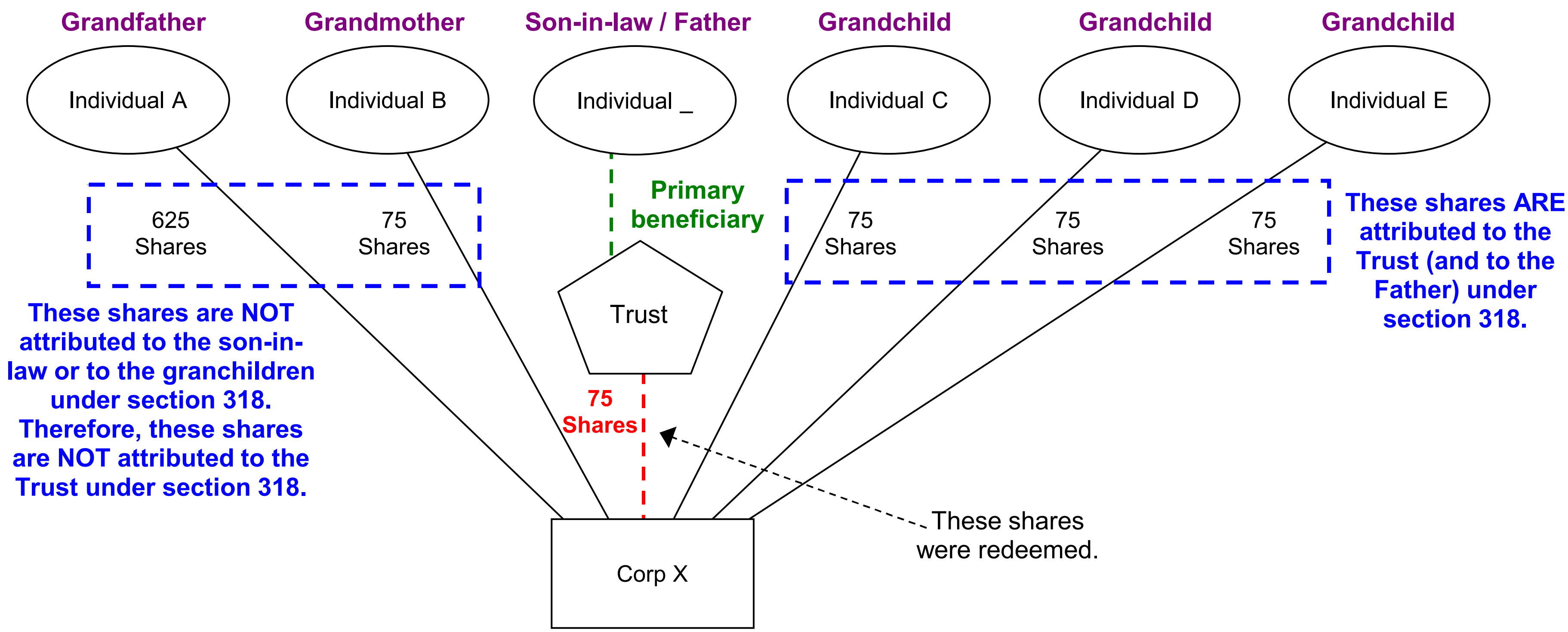
Revenue Ruling 75-512

Redemption Not Equivalent to a Dividend Under 302(b)(1)



The shares owned by the Trust were redeemed. Before the redemption, Corp X had 1,000 shares outstanding, and the Trust directly and constructively owned 300 shares (or 30% [300 /1000]) of Corp X. After the redemption, Corp X had 925 shares outstanding, and the Trust directly and constructively owned 225 shares (or 24.3% [225/925]) of Corp X.

The redemption did not result in a complete termination of the Trust's interest in Corp X. Section 302(b)(3). In addition, after the redemption the Trust's ownership in Corp X was not less than 80% of its ownership in Corp X before the redemption. Section 302(b)(2). Before the redemption, the Trust owned 30%. To be less than 80% of 30%, the Trust would need to own less than 24% after the redemption. The Trust owned 24.3% after the redemption.

Although the Trust did not meet either of the safe harbors in sections 302(b)(2) or 302(b)(3), the ruling held that there was a meaningful reduction in the Trust's interest in Corp X. Therefore, the redemption was not essentially equivalent to a dividend under the facts and circumstance test in section 302(b)(1) and *U.S. v. Davis*, 397 U.S. 301 (1970).