



Corporation X had outstanding one class of stock consisting of 100 shares of common stock. A, an individual, owned 30 shares of X common stock and held positions as president and chairwoman of the board of directors of X. A's spouse, B, and their son, C, each owned 30 shares of X common stock. No other X shareholder (all of whom were individuals) was related to A, B, or C within the meaning of section 318(a)(1). X redeemed for cash all of its common stock held by A, B, and C. After the redemption, A remained as president and director of X.

Section 302(a) provides, in part, that if a corporation redeems its stock, and if section 302(b)(1), (2) or (3), applies, such redemption will be treated as a distribution in part or full payment in exchange of the stock. Section 302(b)(3) provides that section 302(a) will apply if the redemption is in complete redemption of all of the stock of the corporation owned by the shareholder. Section 302(c)(1) provides that section 318(a) will apply in determining the ownership of stock for purposes of this section. Section 302(c)(2) provides, in part, that section 318(a)(1) (relating to constructive ownership of stock owned by members of a family) will not be applicable to a distribution described in section 302(b)(3) if immediately after the distribution the distributee has no interest in the corporation (including an interest as officer, director, or employee), other than an interest as a creditor, the distributee does not acquire any such interest within 10 years from the date of the distribution, and the distributee files an agreement to notify the Commissioner if the distributee should acquire such an interest within 10 years.

In the instant case, if either B or C had not redeemed their stock in the same transaction, or if other X shareholders were related to A, within the meaning of section 318(a)(1) of the Code, the constructive ownership rules would be applicable to A's redemption through section 302(c)(1), and the waiver of attribution provided for by section 302(c)(2) would not be available to A if A retained the positions of officer and director. A redeeming shareholder, who must waive family attribution so that that shareholder's redemption will qualify as a complete termination of interest under section 302(b)(3), may not retain any interest in the corporation, other than an interest as a creditor.

However, where there is no stock outstanding after the redemption the ownership of which would be attributed to the redeeming shareholder, the waiver rule of section 302(c)(2), and the conditions under which waiver can occur, are not applicable. Section 302(b)(3), by itself, places no restriction on the retention of interests in the corporation after the redemption, as long as the entire stock interest is terminated. Thus, if a shareholder's direct stock interest is completely terminated in a redemption, and that shareholder has no indirect ownership of stock after the redemption through application of the constructive ownership rules of section 318(a)(1), the redemption qualifies under section 302(b)(3) regardless of whether the shareholder retains positions as officer and director. Accordingly, since A's actual stock ownership was completely terminated in the redemption, and since, after the redemption, A had no constructive ownership of stock, the redemption was a termination of a shareholder's interest within the meaning of section 302(b)(3), and therefore, qualified as an exchange under section 302(a).