All the outstanding stock of X corporation (voting common stock) is owned by individuals A (40 percent), B (20 percent), and C (40 percent). All the outstanding stock of Y corporation (voting common stock) is owned by individuals B (45 percent), D (30 percent), and E (25 percent). A and B are father and son and C and D are father and son. Otherwise, the shareholders of X and Y are not related to each other. The shareholders of X sold all their X stock to Y for cash. Immediately thereafter, X was completely liquidated into Y.

Since Y acquired the stock of X for cash from a person or persons (A, B and C) in control of both the issuing corporation (X) and the acquiring corporation (Y), the transaction is considered to be an acquisition of stock by a related corporation within the meaning of section 304(a)(1) and thus a redemption of the stock of Y, the acquiring corporation.

After the sale, A, B and C each owned less than 50 percent of the outstanding voting stock of X, and each also owned less than 80 percent of the proportional amount of the X stock owned prior to the transaction. Therefore, the payments of cash by Y to A, B, and C for their X stock qualify as substantially disproportionate redemptions of their stock under section 302(b)(2) and, thus, are treated as distributions in full payment in exchange for their X stock pursuant to section 302(a). That is, the transaction is treated as a sale under section 1001.