A and B owned all of the stock of X Corp, with A owning 900 shares and B owning 100. X Corp redeemed 750 shares of its stock held by A, reducing A's voting rights from 90% to 60%. Pursuant to the articles of incorporation of X Corp and the laws of its state, a holder of over 50 percent of the X stock controlled X's day to day affairs through the board of directors, and a holder of 66.67 percent of the X stock controlled broader corporate decisions such as those regarding corporate liquidation, merger, or disposition of substantial amounts of operating assets.

A redemption must result in a meaningful reduction of the shareholder's proportionate interest in the corporation in order to qualify as not essentially equivalent to a dividend within the meaning of section 302(b)(1) of the Code. United States v. Davis, 397 U.S. 301 (1970). It is most significant that the redemption did not reduce A's voting rights in X to 50 percent or less. Although A has surrendered the ability to individually control those corporate decisions requiring a 66.67 percent vote, A has retained control of the day to day affairs of X. Since A is in control of the day to day affairs of X and because there is no indication that the type of corporate action requiring a 66.67 percent shareholder vote is imminent, the retention by A of 60 percent of the voting rights in X becomes a predominant factor in determining whether the redemption results in a meaningful reduction of A's interest in X.

Under the facts and circumstances, the redemption by X of A's stock did not constitute a meaningful reduction in A's interest in X within the meaning of Davis despite the fact that A's voting rights were reduced below 66.67 percent. Accordingly, the redemption does not qualify as a distribution not essentially equivalent to a dividend under section 302(b)(1) of the Code and, therefore, is not a distribution in part or full payment in exchange for the X stock under section 302(a). Thus, under section 302(d), the redemption is a distribution of property to which section 301 applies.