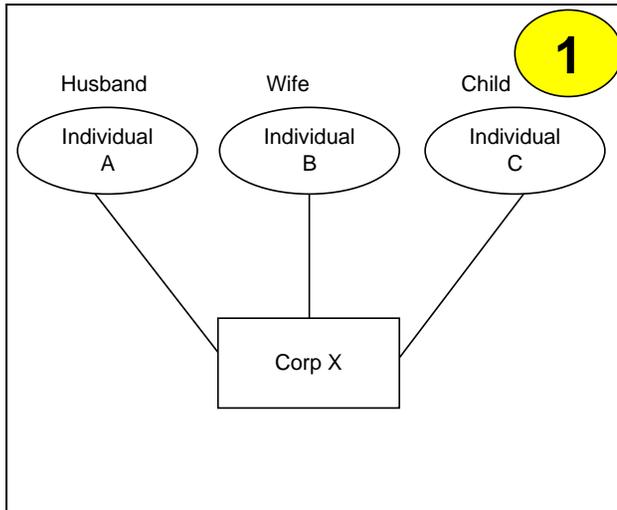
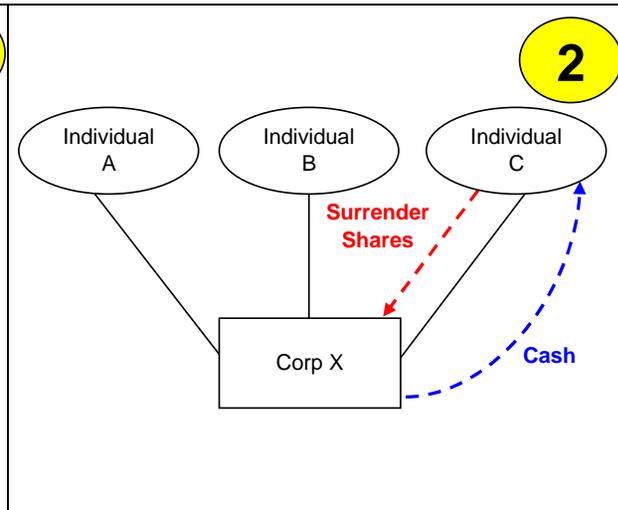


**UGMA Trustee is a Tainted Interest For 302(b)(3) Termination**

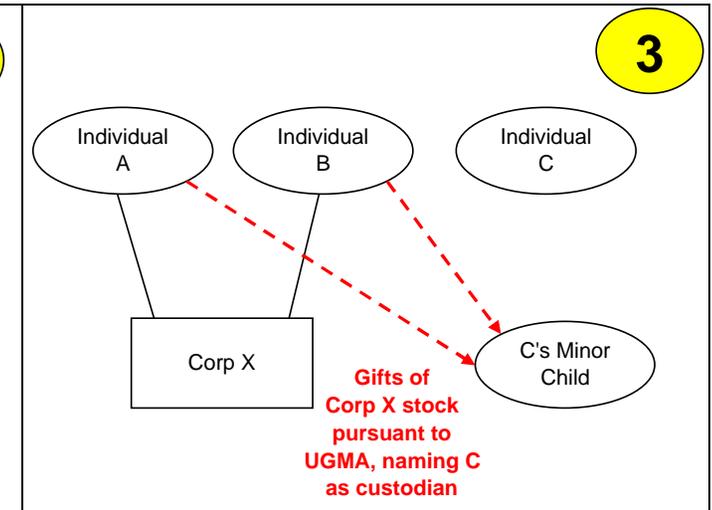
**Initial Structure**



**Redemption**



**UGMA Gifts**



A domestic corporation, X, had outstanding voting stock all of which was owned by A, B, and C. A and B were husband and wife and C was their child. In 1978 X redeemed all of its stock held by C. C filed the agreement specified in section 302(c)(2)(A)(iii), and reported the distribution received from X as being in full payment in exchange for the X stock, pursuant to section 302(a), by reason of the application of section 302(b)(3). In 1980, A and B made a gift of X stock, pursuant to the Uniform Gifts to Minors Act, to C's minor child, naming C as the custodian of the X stock.

In order to qualify the redemption as a complete redemption of all of the stock of the corporation owned by C under section 302(b)(3), and thereby have the redemption treated as a distribution in full payment in exchange for stock under section 302(a), C must acquire no interest in the corporation within the meaning of section 302(c)(2)(A)(ii) within 10 years from the date of the distribution.

Under the Uniform Gifts to Minors Act the person having custody of stock held pursuant thereto is entitled to vote the stock. Therefore, a person having custody of stock under such Act will be viewed as having acquired an interest in that corporation. The requirements of section 302(c)(2)(A)(ii) are violated when within the 10-year period subsequent to a redemption distribution the distributee is appointed as a custodian of stock of the distributing corporation under the Uniform Gifts to Minors Act. C will be considered under section 318(a)(1) to own the stock owned by A and B and, thus, the distribution will be treated pursuant to section 302(d) as a distribution of property to which section 301 applies. See also Rev. Rul. 71-426 (tainted interested where the distributee continued in a position as a voting trustee of a trust that held the remaining stock of the distribution corporation for the benefit of the distributee's children).

**Ending Point**

