

apply to expenditures after December 31, 1984, in taxable years ending after such date.”

Amendment by section 712 of Pub. L. 98-369 effective as if included in the provision of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 715 of Pub. L. 98-369, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1983 AMENDMENT

Amendment by Pub. L. 97-448 effective as if included in the provisions of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 31(d) of Pub. L. 97-448, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1982 AMENDMENT

Amendment by Pub. L. 97-354 applicable to taxable years beginning after Dec. 31, 1982, see section 6(a) of Pub. L. 97-354, set out as an Effective Date note under section 1361 of this title.

EFFECTIVE DATE

Pub. L. 97-248, title II, §204(d), Sept. 3, 1982, 96 Stat. 427, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section [enacting this section and amending sections 57 and 263 of this title] shall apply to taxable years beginning after December 31, 1982.

“(2) 1250 GAIN.—Section 291(a)(1) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] shall apply to sales or other disposition after December 31, 1982, in taxable years ending after such date.

“(3) POLLUTION CONTROL FACILITIES.—Section 291(a)(5) [now 291(a)(4)] of such Code shall apply to property placed in service after December 31, 1982, in taxable years ending after such date.

“(4) DRILLING AND MINING COSTS.—Section 291(b) of such Code shall apply to expenditures after December 31, 1982, in taxable years ending after such date.

“(5) REDUCTION IN PERCENTAGE DEPLETION FOR COAL AND IRON ORE.—Section 291(a)(2) of such Code shall apply to taxable years beginning after December 31, 1983.

“(6) MINIMUM TAX.—The amendment made by subsection (b) [amending section 57 of this title] shall apply to taxable years ending after December 31, 1982, with respect to items of tax preference described in section 57(b) of such Code to which section 291 of such Code applies; except that in the case of an item described in section 291(a)(2) of such Code, such amendment shall apply to taxable years beginning after December 31, 1983.”

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§1101-1147 and 1171-1177] or title XVIII [§§1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

Subchapter C—Corporate Distributions and Adjustments

Part
I. Distributions by corporations.

Part
II. Corporate liquidations.
III. Corporate organizations and reorganizations.
[IV. Repealed.]
V. Carryovers.
VI. Treatment of certain corporate interests as stock or indebtedness.
[VII. Repealed.]

AMENDMENTS

1990—Pub. L. 101-508, title XI, §11801(b)(5), Nov. 5, 1990, 104 Stat. 1388-522, struck out item for part IV “Insolvency reorganizations”.

1988—Pub. L. 100-647, title I, §1006(e)(8)(C), Nov. 10, 1988, 102 Stat. 3401, struck out item for part VII “Miscellaneous corporate provisions”.

1984—Pub. L. 98-369, div. A, title I, §75(d), July 18, 1984, 98 Stat. 595, added item for part VII.

1976—Pub. L. 94-455, title XIX, §1901(b)(15), Oct. 4, 1976, 90 Stat. 1796, struck out item for part VII “Effective date of subchapter C.”

1969—Pub. L. 91-172, title IV, §415(b), Dec. 30, 1969, 83 Stat. 614, redesignated item for part VI as VII and added part VI.

PART I—DISTRIBUTIONS BY CORPORATIONS

Subpart
A. Effects on recipients.
B. Effects on corporation.
C. Definitions; constructive ownership of stock.

SUBPART A—EFFECTS ON RECIPIENTS

Sec.
301. Distributions of property.
302. Distributions in redemption of stock.
303. Distributions in redemption of stock to pay death taxes.
304. Redemption through use of related corporations.
305. Distributions of stock and stock rights.
306. Dispositions of certain stock.
307. Basis of stock and stock rights acquired in distributions.

§ 301. Distributions of property

(a) In general

Except as otherwise provided in this chapter, a distribution of property (as defined in section 317(a)) made by a corporation to a shareholder with respect to its stock shall be treated in the manner provided in subsection (c).

(b) Amount distributed

(1) General rule

For purposes of this section, the amount of any distribution shall be the amount of money received, plus the fair market value of the other property received.

(2) Reduction for liabilities

The amount of any distribution determined under paragraph (1) shall be reduced (but not below zero) by—

(A) the amount of any liability of the corporation assumed by the shareholder in connection with the distribution, and

(B) the amount of any liability to which the property received by the shareholder is subject immediately before, and immediately after, the distribution.

(3) Determination of fair market value

For purposes of this section, fair market value shall be determined as of the date of the distribution.

(c) Amount taxable

In the case of a distribution to which subsection (a) applies—

(1) Amount constituting dividend

That portion of the distribution which is a dividend (as defined in section 316) shall be included in gross income.

(2) Amount applied against basis

That portion of the distribution which is not a dividend shall be applied against and reduce the adjusted basis of the stock.

(3) Amount in excess of basis**(A) In general**

Except as provided in subparagraph (B), that portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock, shall be treated as gain from the sale or exchange of property.

(B) Distributions out of increase in value accrued before March 1, 1913

That portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock and to the extent that it is out of increase in value accrued before March 1, 1913, shall be exempt from tax.

(d) Basis

The basis of property received in a distribution to which subsection (a) applies shall be the fair market value of such property.

(e) Special rule for certain distributions received by 20 percent corporate shareholder**(1) In general**

Except to the extent otherwise provided in regulations, solely for purposes of determining the taxable income of any 20 percent corporate shareholder (and its adjusted basis in the stock of the distributing corporation), section 312 shall be applied with respect to the distributing corporation as if it did not contain subsections (k) and (n) thereof.

(2) 20 percent corporate shareholder

For purposes of this subsection, the term “20 percent corporate shareholder” means, with respect to any distribution, any corporation which owns (directly or through the application of section 318)—

(A) stock in the corporation making the distribution possessing at least 20 percent of the total combined voting power of all classes of stock entitled to vote, or

(B) at least 20 percent of the total value of all stock of the distributing corporation (except nonvoting stock which is limited and preferred as to dividends),

but only if, but for this subsection, the distributee corporation would be entitled to a deduction under section 243, 244, or 245 with respect to such distribution.

(3) Application of section 312(n)(7) not affected

The reference in paragraph (1) to subsection (n) of section 312 shall be treated as not including a reference to paragraph (7) of such subsection.

(4) Regulations

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection.

(f) Special rules

(1) For distributions in redemption of stock, see section 302.

(2) For distributions in complete liquidation, see part II (sec. 331 and following).

(3) For distributions in corporate organizations and reorganizations, see part III (sec. 351 and following).

(4) For taxation of dividends received by individuals at capital gain rates, see section 1(h)(11).

(Aug. 16, 1954, ch. 736, 68A Stat. 84; Pub. L. 87-403, §2(a), Feb. 2, 1962, 76 Stat. 5; Pub. L. 87-834, §§5(a), (b), 13(f)(2), Oct. 16, 1962, 76 Stat. 977, 1035; Pub. L. 88-272, title II, §231(b)(2), Feb. 26, 1964, 78 Stat. 105; Pub. L. 88-484, §1(b)(1), Aug. 22, 1964, 78 Stat. 597; Pub. L. 89-570, §1(b)(2), Sept. 12, 1966, 80 Stat. 762; Pub. L. 89-809, title I, §104(f), Nov. 13, 1966, 80 Stat. 1559; Pub. L. 91-172, title II, §211(b)(1), (2), title IX, §905(b)(2), Dec. 30, 1969, 83 Stat. 570, 714; Pub. L. 92-178, title III, §312(a), Dec. 10, 1971, 85 Stat. 526; Pub. L. 94-455, title II, §205(c)(1)(B), (C), title XIX, §§1901(a)(41), (b)(32)(A), 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1535, 1771, 1800, 1834; Pub. L. 95-628, §3(a), (b), Nov. 10, 1978, 92 Stat. 3627; Pub. L. 98-369, div. A, title I, §§54(b), 61(d), title VII, §712(i)(1), July 18, 1984, 98 Stat. 569, 582, 948; Pub. L. 99-514, title VI, §612(b)(1), title XVIII, §1804(f)(2)(B), Oct. 22, 1986, 100 Stat. 2250, 2805; Pub. L. 100-203, title X, §10222(b)(1), Dec. 22, 1987, 101 Stat. 1330-411; Pub. L. 100-647, title I, §1006(e)(10)-(12), title II, §2004(j)(3)(B), Nov. 10, 1988, 102 Stat. 3401, 3402, 3605; Pub. L. 108-27, title III, §302(e)(2), May 28, 2003, 117 Stat. 763.)

AMENDMENT OF SECTION

For termination of amendment by section 303 of Pub. L. 108-27, see Effective and Termination Dates of 2003 Amendment note below.

AMENDMENTS

2003—Subsec. (f)(4). Pub. L. 108-27, §§302(e)(2), 303, temporarily added par. (4). See Effective and Termination Dates of 2003 Amendment note below.

1988—Subsec. (b)(1). Pub. L. 100-647, §1006(e)(10), amended par. (1) generally. Prior to amendment, par. (1) contained subpars. (A) to (D) which provided what the amount of any distribution would be for noncorporate distributees, corporate distributees, certain corporate distributees of foreign corporations, and foreign corporate distributees.

Subsec. (d). Pub. L. 100-647, §1006(e)(11), amended subsec. (d) generally. Prior to amendment, subsec. (d) contained pars. (1) to (4) which provided what the basis of property received would be for noncorporate distributees, corporate distributees, foreign corporate distributees, and certain corporate distributees of foreign corporations.

Subsec. (e). Pub. L. 100-647, §2004(j)(3)(B), added par. (3) and redesignated former par. (3) as (4).

Pub. L. 100-647, §1006(e)(12), redesignated subsec. (f) as (e) and struck out former subsec. (e) which related to special rule for holding period of appreciated property distributed to corporation.

Subsecs. (f), (g). Pub. L. 100-647, §1006(e)(12), redesignated subsec. (g) as (f). Former subsec. (f) redesignated (e).

1987—Subsec. (f)(1). Pub. L. 100-203 substituted “subsections (k) and (n)” for “subsection (n)”.

1986—Subsec. (f)(3). Pub. L. 99-514, §1804(f)(2)(B), substituted “this subsection” for “this section”.

Subsec. (g)(4). Pub. L. 99-514, §612(b)(1), struck out par. (4) which provided: "For partial exclusion from gross income of dividends received by individuals, see section 116."

1984—Subsec. (e). Pub. L. 98-369, §54(b), added subsec. (e). Former subsec. (e) redesignated (f).

Subsec. (e)(2). Pub. L. 98-369, §712(i)(1), substituted "complete liquidation" for "partial or complete liquidation" in subsec. (e)(2), which became subsec. (g)(2).

Subsec. (f). Pub. L. 98-369, §61(d), added subsec. (f). Former subsec. (f) redesignated (g).

Pub. L. 98-369, §54(b), redesignated former subsec. (e) as (f).

Subsec. (g). Pub. L. 98-369, §§54(b), 61(d), redesignated former subsec. (e) successively as subsec. (f) and as subsec. (g).

Subsec. (g)(2). Pub. L. 98-369, §712(i)(1), substituted "complete liquidation" for "partial or complete liquidation" in subsec. (e)(2), which became subsec. (g)(2).

1978—Subsec. (b)(1)(B)(ii). Pub. L. 95-628, §3(a), substituted "amount of gain recognized to the distributing corporation on the distribution" for "amount of gain to the distributing corporation which is recognized under subsection (b), (c), or (d) of section 311, under section 341(f), or under section 617(d)(1), 1245(a), 1250(a), 1251(c), 1252(a), or 1254(a)".

Subsec. (d)(2)(B). Pub. L. 95-628, §3(b), substituted "amount of gain recognized to the distributing corporation on the distribution" for "amount of gain to the distributing corporation which is recognized under subsection (b), (c), or (d) of section 311, under section 341(f), or under section 617(d)(1), 1245(a), 1250(a), 1251(c), 1252(a), or 1254(a)".

1976—Subsec. (b)(1)(B)(ii). Pub. L. 94-455, §205(c)(1)(B), substituted "1252(a), or 1254(a)" for "or 1252(a)".

Subsec. (b)(1)(C). Pub. L. 94-455, §1906(b)(13)(A), struck out "or his delegate" after "Secretary".

Subsec. (d)(2)(B). Pub. L. 94-455, §205(c)(1)(C), substituted "1252(a), or 1254(a)" for "or 1252(a)".

Subsec. (e). Pub. L. 94-455, §1901(a)(41), (b)(32)(A), redesignated subsec. (g) as (e). Former subsec. (e), which related to exceptions for certain distributions by personal service corporations, was struck out.

Subsec. (f). Pub. L. 94-455, §1901(b)(32)(A), struck out subsec. (f) which related to special rules for distribution of antitrust stock to corporations.

Subsec. (g). Pub. L. 94-455, §1901(b)(32)(A), redesignated subsec. (g) as (e).

1971—Subsec. (b)(1)(B). Pub. L. 92-178, §312(a)(1), substituted "corporation, unless subparagraph (D) applies" for "corporation" where first appearing.

Subsec. (b)(1)(D). Pub. L. 92-178, §312(a)(2), added subparagraph (D).

Subsec. (d)(2). Pub. L. 92-178, §312(a)(3), substituted "corporation, unless paragraph (3) applies" for "corporation" where first appearing.

Subsec. (d)(3), (4). Pub. L. 92-178, §312(a)(4), added par. (3) and redesignated former par. (3) as (4).

1969—Subsec. (b)(1)(B)(ii). Pub. L. 91-172, §§211(b)(1), 905(b)(2), substituted "1250(a), 1251(c), or 1252(a)" for "or 1250(a)" and inserted reference to section 311(a).

Subsec. (d)(2)(B). Pub. L. 91-172, §§211(b)(2), 905(b)(2), substituted "1250(a), 1251(c), or 1252(a)", for "or 1250(a)" and inserted reference to section 311(a).

1966—Subsec. (b)(1)(B)(ii). Pub. L. 89-570 included reference to section 617(d)(1).

Subsec. (b)(1)(C). Pub. L. 89-809 substituted "gross income which is effectively connected with the conduct of a trade or business within the United States" for "gross income from sources within the United States" in cl. (i), "gross income which is not effectively connected with the conduct of a trade or business within the United States" for "gross income from sources without the United States" in cl. (ii), and inserted text following cl. (ii) setting out the treatment to be accorded gross income for any period before the first taxable year beginning after December 31, 1966.

Subsec. (d)(2)(B). Pub. L. 89-570 included reference to section 617(d)(1).

1964—Subsec. (b). Pub. L. 88-484 included amount of gain recognized under section 341(f).

Pub. L. 88-272 inserted reference to section 1250(a).

Subsec. (d). Pub. L. 88-484 included amount of gain recognized under section 341(f).

Pub. L. 88-272 inserted reference to section 1250(a).

1962—Subsec. (b)(1)(B). Pub. L. 87-834, §13(f)(2), substituted "subsection (b) or (c) of section 311 or under section 1245(a)" for "subsection (b) or (c) of section 311".

Subsec. (b)(1)(C). Pub. L. 87-834, §5(a), added subparagraph (C).

Subsec. (d)(2). Pub. L. 87-834, §13(f)(2), substituted "subsection (b) or (c) of section 311 or under section 1245(a)" for "subsection (b) or (c) of section 311".

Subsec. (d)(3). Pub. L. 87-834, §5(b), added par. (3).

Subsecs. (f), (g). Pub. L. 87-403 added subsec. (f) and redesignated former subsec. (f) as (g).

EFFECTIVE AND TERMINATION DATES OF 2003 AMENDMENT

Amendment by Pub. L. 108-27 applicable, except as otherwise provided, to taxable years beginning after Dec. 31, 2002, see section 302(f) of Pub. L. 108-27, set out as a note under section 1 of this title.

Amendment by Pub. L. 108-27 inapplicable to taxable years beginning after Dec. 31, 2010, and the Internal Revenue Code of 1986 to be applied and administered to such years as if such amendment had never been enacted, see section 303 of Pub. L. 108-27, as amended, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by section 1006(e)(10)–(12) of Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

Amendment by section 2004(j)(3)(B) of Pub. L. 100-647 effective, except as otherwise provided, as if included in the provisions of the Revenue Act of 1987, Pub. L. 100-203, title X, to which such amendment relates, see section 2004(u) of Pub. L. 100-647, set out as a note under section 56 of this title.

EFFECTIVE DATE OF 1987 AMENDMENT

Section 10222(b)(2) of Pub. L. 100-203, as amended by Pub. L. 100-647, title II, §2004(j)(4), Nov. 10, 1988, 102 Stat. 3605, provided that:

"(A) IN GENERAL.—The amendment made by paragraph (1) [amending this section] shall apply to distributions after December 15, 1987. For purposes of applying such amendment to any such distribution—

"(i) for purposes of determining earnings and profits, such amendment shall be deemed to be in effect for all periods whether before, on, or after December 15, 1987, but

"(ii) such amendment shall not affect the determination of whether any distribution on or before December 15, 1987, is a dividend and the amount of any reduction in accumulated earnings and profits on account of any such distribution.

"(B) EXCEPTION.—The amendment made by paragraph (1) shall not apply for purposes of determining gain or loss on any disposition of stock after December 15, 1987, and before January 1, 1989, if such disposition is pursuant to a written binding contract, governmental order, letter of intent or preliminary agreement, or stock acquisition agreement, in effect on or before December 15, 1987."

EFFECTIVE DATE OF 1986 AMENDMENT

Section 612(c) of Pub. L. 99-514 provided that: "The amendments made by this section [amending this section and sections 584, 642, 643, 702, 854, and 857 of this title, repealing section 116 of this title, and enacting provisions set out as a note under section 584 of this title] shall apply to taxable years beginning after December 31, 1986."

Amendment by section 1804(f)(2)(B) of Pub. L. 99-514 effective, except as otherwise provided, as if included in

the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by section 54(b) of Pub. L. 98-369 applicable to distributions after July 18, 1984, in taxable years ending after July 18, 1984, see section 54(d)(2) of Pub. L. 98-369, set out as a note under section 311 of this title.

Section 61(e)(4) of Pub. L. 98-369 provided that: "The amendment made by subsection (d) [amending this section] shall apply to distributions after the date of the enactment of this Act [July 18, 1984] in taxable years ending after such date."

Amendment by section 712(i)(1) of Pub. L. 98-369 effective as if included in the provision of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 715 of Pub. L. 98-369, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1978 AMENDMENT

Section 3(d) of Pub. L. 95-628 provided that: "The amendments made by this section [amending this section and section 312 of this title] shall apply to distributions made after the date of the enactment of this Act [Nov. 10, 1978]."

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 205(c)(1)(B), (C) of Pub. L. 94-455 effective for taxable years ending after Dec. 31, 1975, see section 205(e) of Pub. L. 94-455, set out as an Effective Date note under section 1254 of this title.

Amendment by section 1901(a)(41), (b)(32)(A) of Pub. L. 94-455 effective for taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

EFFECTIVE DATE OF 1971 AMENDMENT

Section 312(b) of Pub. L. 92-178 provided that: "The amendments made by subsection (a) [amending this section] shall apply with respect to distributions made after November 8, 1971."

EFFECTIVE DATE OF 1969 AMENDMENT

Section 211(c) of Pub. L. 91-172 provided that: "The amendments made by this section [enacting section 1251 of this title and amending this section and sections 312, 341, 453, and 751 of this title] shall apply to taxable years beginning after December 31, 1969."

Amendment by section 905(b)(2) of Pub. L. 91-172 effective with respect to distributions made after Nov. 30, 1969, see section 905(c) of Pub. L. 91-172, set out as a note under section 311 of this title.

EFFECTIVE DATE OF 1966 AMENDMENTS

Amendment by Pub. L. 89-809 applicable with respect to taxable years beginning after Dec. 31, 1966, see section 104(n) of Pub. L. 89-809, set out as a note under section 11 of this title.

Amendment by Pub. L. 89-570 applicable to taxable years ending after Sept. 12, 1966, but only in respect of expenditures paid or incurred after such date, see section 3 of Pub. L. 89-570, set out as an Effective Date note under section 617 of this title.

EFFECTIVE DATE OF 1964 AMENDMENTS

Pub. L. 88-484, § 2, Aug. 22, 1964, 78 Stat. 597, provided that: "The amendments made by the first section of this Act [amending this section and sections 312, 341, and 453 of this title] shall apply with respect to transactions after the date of the enactment of this Act [Aug. 22, 1964] in taxable years ending after such date."

Amendment by Pub. L. 88-272 applicable to dispositions after Dec. 31, 1963, in taxable years ending after such date, see section 231(c) of Pub. L. 88-272, set out as an Effective Date note under section 1250 of this title.

EFFECTIVE DATE OF 1962 AMENDMENTS

Section 5(d) of Pub. L. 87-834 provided that: "The amendments made by this section [amending this sec-

tion and section 245 of this title] shall apply to distributions made after December 31, 1962."

Amendment by section 13(f)(2) of Pub. L. 87-834 applicable to taxable years beginning after Dec. 31, 1962, see section 13(g) of Pub. L. 87-834, set out as an Effective Date note under section 1245 of this title.

Section 2(b) of Pub. L. 87-403 provided that: "The amendments made by this section [amending this section] shall apply only with respect to distributions made after the date of the enactment of this Act [Feb. 2, 1962]."

STUDY OF CORPORATE PROVISIONS

Section 634 of Pub. L. 99-514 directed Secretary of the Treasury or his delegate to conduct a study of proposals to reform the provisions of subchapter C of chapter 1 of the Internal Revenue Code of 1986, and not later than Jan. 1, 1988 (due date extended to Jan. 1, 1992, by Pub. L. 101-508, title XI, § 11831(b), Nov. 5, 1990, 104 Stat. 1388-559), to submit to Committee on Ways and Means of House of Representatives and Committee on Finance of Senate a report on the study conducted (together with such recommendations he deemed advisable).

PLAN AMENDMENTS NOT REQUIRED UNTIL JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101-1147 and 1171-1177] or title XVIII [§§ 1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

§ 302. Distributions in redemption of stock

(a) General rule

If a corporation redeems its stock (within the meaning of section 317(b)), and if paragraph (1), (2), (3), or (4) of subsection (b) applies, such redemption shall be treated as a distribution in part or full payment in exchange for the stock.

(b) Redemptions treated as exchanges

(1) Redemptions not equivalent to dividends

Subsection (a) shall apply if the redemption is not essentially equivalent to a dividend.

(2) Substantially disproportionate redemption of stock

(A) In general

Subsection (a) shall apply if the distribution is substantially disproportionate with respect to the shareholder.

(B) Limitation

This paragraph shall not apply unless immediately after the redemption the shareholder owns less than 50 percent of the total combined voting power of all classes of stock entitled to vote.

(C) Definitions

For purposes of this paragraph, the distribution is substantially disproportionate if—

(i) the ratio which the voting stock of the corporation owned by the shareholder immediately after the redemption bears to all of the voting stock of the corporation at such time,

is less than 80 percent of—

(ii) the ratio which the voting stock of the corporation owned by the shareholder

immediately before the redemption bears to all of the voting stock of the corporation at such time.

For purposes of this paragraph, no distribution shall be treated as substantially disproportionate unless the shareholder's ownership of the common stock of the corporation (whether voting or nonvoting) after and before redemption also meets the 80 percent requirement of the preceding sentence. For purposes of the preceding sentence, if there is more than one class of common stock, the determinations shall be made by reference to fair market value.

(D) Series of redemptions

This paragraph shall not apply to any redemption made pursuant to a plan the purpose or effect of which is a series of redemptions resulting in a distribution which (in the aggregate) is not substantially disproportionate with respect to the shareholder.

(3) Termination of shareholder's interest

Subsection (a) shall apply if the redemption is in complete redemption of all of the stock of the corporation owned by the shareholder.

(4) Redemption from noncorporate shareholder in partial liquidation

Subsection (a) shall apply to a distribution if such distribution is—

(A) in redemption of stock held by a shareholder who is not a corporation, and

(B) in partial liquidation of the distributing corporation.

(5) Application of paragraphs

In determining whether a redemption meets the requirements of paragraph (1), the fact that such redemption fails to meet the requirements of paragraph (2), (3), or (4) shall not be taken into account. If a redemption meets the requirements of paragraph (3) and also the requirements of paragraph (1), (2), or (4), then so much of subsection (c)(2) as would (but for this sentence) apply in respect of the acquisition of an interest in the corporation within the 10-year period beginning on the date of the distribution shall not apply.

(c) Constructive ownership of stock

(1) In general

Except as provided in paragraph (2) of this subsection, section 318(a) shall apply in determining the ownership of stock for purposes of this section.

(2) For determining termination of interest

(A) In the case of a distribution described in subsection (b)(3), section 318(a)(1) shall not apply if—

(i) 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,

(ii) the distributee does not acquire any such interest (other than stock acquired by bequest or inheritance) within 10 years from the date of such distribution, and

(iii) the distributee, at such time and in such manner as the Secretary by regulations prescribes, files an agreement to notify the Secretary of any acquisition described in clause (ii) and to retain such records as may be necessary for the application of this paragraph.

If the distributee acquires such an interest in the corporation (other than by bequest or inheritance) within 10 years from the date of the distribution, then the periods of limitation provided in sections 6501 and 6502 on the making of an assessment and the collection by levy or a proceeding in court shall, with respect to any deficiency (including interest and additions to the tax) resulting from such acquisition, include one year immediately following the date on which the distributee (in accordance with regulations prescribed by the Secretary) notifies the Secretary of such acquisition; and such assessment and collection may be made notwithstanding any provision of law or rule of law which otherwise would prevent such assessment and collection.

(B) Subparagraph (A) of this paragraph shall not apply if—

(i) any portion of the stock redeemed was acquired, directly or indirectly, within the 10-year period ending on the date of the distribution by the distributee from a person the ownership of whose stock would (at the time of distribution) be attributable to the distributee under section 318(a), or

(ii) any person owns (at the time of the distribution) stock the ownership of which is attributable to the distributee under section 318(a) and such person acquired any stock in the corporation, directly or indirectly, from the distributee within the 10-year period ending on the date of the distribution, unless such stock so acquired from the distributee is redeemed in the same transaction.

The preceding sentence shall not apply if the acquisition (or, in the case of clause (ii), the disposition) by the distributee did not have as one of its principal purposes the avoidance of Federal income tax.

(C) Special rule for waivers by entities

(i) In general

Subparagraph (A) shall not apply to a distribution to any entity unless—

(I) such entity and each related person meet the requirements of clauses (i), (ii), and (iii) of subparagraph (A), and

(II) each related person agrees to be jointly and severally liable for any deficiency (including interest and additions to tax) resulting from an acquisition described in clause (ii) of subparagraph (A).

In any case to which the preceding sentence applies, the second sentence of subparagraph (A) and subparagraph (B)(ii) shall be applied by substituting "distributee or any related person" for "distributee" each place it appears.

(ii) Definitions

For purposes of this subparagraph—

(I) the term “entity” means a partnership, estate, trust, or corporation; and

(II) the term “related person” means any person to whom ownership of stock in the corporation is (at the time of the distribution) attributable under section 318(a)(1) if such stock is further attributable to the entity under section 318(a)(3).

(d) Redemptions treated as distributions of property

Except as otherwise provided in this subchapter, if a corporation redeems its stock (within the meaning of section 317(b)), and if subsection (a) of this section does not apply, such redemption shall be treated as a distribution of property to which section 301 applies.

(e) Partial liquidation defined

(1) In general

For purposes of subsection (b)(4), a distribution shall be treated as in partial liquidation of a corporation if—

(A) the distribution is not essentially equivalent to a dividend (determined at the corporate level rather than at the shareholder level), and

(B) the distribution is pursuant to a plan and occurs within the taxable year in which the plan is adopted or within the succeeding taxable year.

(2) Termination of business

The distributions which meet the requirements of paragraph (1)(A) shall include (but shall not be limited to) a distribution which meets the requirements of subparagraphs (A) and (B) of this paragraph:

(A) The distribution is attributable to the distributing corporation's ceasing to conduct, or consists of the assets of, a qualified trade or business.

(B) Immediately after the distribution, the distributing corporation is actively engaged in the conduct of a qualified trade or business.

(3) Qualified trade or business

For purposes of paragraph (2), the term “qualified trade or business” means any trade or business which—

(A) was actively conducted throughout the 5-year period ending on the date of the redemption, and

(B) was not acquired by the corporation within such period in a transaction in which gain or loss was recognized in whole or in part.

(4) Redemption may be pro rata

Whether or not a redemption meets the requirements of subparagraphs (A) and (B) of paragraph (2) shall be determined without regard to whether or not the redemption is pro rata with respect to all of the shareholders of the corporation.

(5) Treatment of certain pass-thru entities

For purposes of determining under subsection (b)(4) whether any stock is held by a shareholder who is not a corporation, any stock held by a partnership, estate, or trust

shall be treated as if it were actually held proportionately by its partners or beneficiaries.

(f) Cross references

For special rules relating to redemption—

(1) Death Taxes.—Of stock to pay death taxes, see section 303.

(2) Section 306 Stock.—Of section 306 stock, see section 306.

(3) Liquidations.—Of stock in complete liquidation, see section 331.

(Aug. 16, 1954, ch. 736, 68A Stat. 85; Pub. L. 94-455, title XIX, § 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 96-589, § 5(b), Dec. 24, 1980, 94 Stat. 3405; Pub. L. 97-248, title II, §§ 222(c), 228(a), Sept. 3, 1982, 96 Stat. 478, 493; Pub. L. 98-369, div. A, title VII, § 712(i)(1), July 18, 1984, 98 Stat. 948.)

AMENDMENTS

1984—Subsec. (f)(3). Pub. L. 98-369 substituted “complete liquidation” for “partial or complete liquidation”.

1982—Subsec. (a). Pub. L. 97-248, § 222(c)(3), substituted “paragraph (1), (2), (3), or (4)” for “paragraph (1), (2), or (3)”.

Subsec. (b)(4), (5). Pub. L. 97-248, § 222(c)(1), (4), added par. (4), redesignated former par. (4) as (5) and substituted “paragraph (2), (3), or (4)” for “paragraph (2) or (3)” after “to meet the requirements of”, and “paragraph (1), (2), or (4)” for “paragraph (1) or (2)” after “and also the requirements of”.

Subsec. (c)(2)(C). Pub. L. 97-248, § 228(a), added subpar. (C).

Subsecs. (e), (f). Pub. L. 97-248, § 222(c)(2), added subsec. (e) and redesignated former subsec. (e) as (f).

1980—Subsec. (a). Pub. L. 96-589, § 5(b)(2)(A), struck out reference to par. (4) of subsec. (b).

Subsec. (b)(4), (5). Pub. L. 96-589, § 5(b)(1), (2)(B), redesignated par. (5) as (4) and struck out reference to par. (4) in two places. Former par. (4) was struck out.

1976—Subsec. (c)(2). Pub. L. 94-455 struck out “or his delegate” after “Secretary” wherever appearing.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by Pub. L. 98-369 effective as if included in the provision of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 715 of Pub. L. 98-369, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1982 AMENDMENT; PARTIAL LIQUIDATIONS

Section 228(b) of Pub. L. 97-248 provided that: “The amendment made by subsection (a) [amending this section] shall apply with respect to distributions after August 31, 1982, in taxable years ending after such date.”

Section 222(f) of Pub. L. 97-248, as amended by Pub. L. 97-448, title III, § 306(a)(6)(A), Jan. 12, 1983, 96 Stat. 2402; Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 306, 312, 331, 334, 336, 341, 346, 543, and 562 of this title and repealing section 338 of this title] shall apply to distributions after August 31, 1982.

“(2) EXCEPTIONS.—

“(A) RULING REQUESTS.—The amendments made by this section shall not apply to distributions made by any corporation if—

“(i)(I) on July 22, 1982, there was a ruling request by such corporation pending with the Internal Revenue Service as to whether such distributions would qualify as a partial liquidation, or

“(II) within the period beginning on July 12, 1981, and ending on July 22, 1982, the Internal Revenue Service granted a ruling to such corporation that the distributions would qualify as a partial liquidation, and

“(ii) such distributions are pursuant to a plan of partial liquidation adopted before October 1, 1982 (or, if later, 90 days after the date on which the Internal Revenue Service granted a ruling pursuant to the request described in clause (i)(I)).

“(B) PLANS ADOPTED BEFORE JULY 23, 1982.—The amendments made by this section shall not apply to distributions made pursuant to a plan of partial liquidation adopted before July 23, 1982.

“(C) CONTROL ACQUIRED AFTER 1981 AND BEFORE JULY 23, 1982.—The amendments made by this section shall not apply to distributions made pursuant to a plan of partial liquidation adopted before October 1, 1982, where control of the corporation making the distributions was acquired after December 31, 1981, and before July 23, 1982.

“(D) TENDER OFFER OR BINDING CONTRACT OUTSTANDING ON JULY 22, 1982.—

“(i) IN GENERAL.—The amendments made by this section shall not apply to distributions made by a corporation if—

“(I) such distributions are pursuant to a plan of liquidation adopted before October 1, 1982, and

“(II) control of such corporation was acquired after July 22, 1982, pursuant to a tender offer or binding contract outstanding on such date.

“(ii) EXTENSION OF TIME FOR ADOPTING PLAN WHERE ACQUISITION SUBJECT TO FEDERAL REGULATORY APPROVAL.—If the acquisition described in clause (i)(II) is subject to approval by a Federal regulatory agency, clause (i) shall be applied by substituting for ‘October 1, 1982’ the date which is 90 days after the date on which approval by the Federal regulatory agency of such acquisition becomes final.

“(iii) SPECIAL RULE WHERE OFFER SUBJECT TO APPROVAL BY FOREIGN REGULATORY BODY.—In any case where an offer to acquire stock in a corporation was subject to intervention by a foreign regulatory body and a public announcement of such an offer resulted in the intervention by such foreign regulatory body before July 23, 1982—

“(I) such public announcement shall be treated as a tender offer, and

“(II) clause (i) shall be applied by substituting for ‘October 1, 1982’ the date which is 90 days after the date on which such regulatory body approves a public offer to acquire stock in such corporation.

“(iv) SPECIAL RULE WHERE ONE-THIRD OF SHARES ACQUIRED DURING MARCH AND APRIL 1982.—If—

“(I) one-third or more of the shares of a corporation were acquired by another corporation during March and April 1982, and

“(II) during March or April 1982, the acquiring corporation filed with the Federal Trade Commission notification of its intent to acquire control of the acquired corporation,

subclause (II) of clause (i) shall not apply with respect to distributions made by the acquired corporation.

“(E) INSURANCE COMPANIES.—The amendments made by this section shall not apply to distributions made by an insurance company pursuant to a plan of partial liquidation adopted before October 1, 1982, where control was acquired by the distributee or its parent after December 31, 1980, and before July 23, 1982, and the conduct of the insurance business by the distributee is conditioned on approval by a State regulatory authority.

For purposes of this paragraph, the term ‘control’ has the meaning given to such term by section 368(c) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954], except that in applying such section both direct and indirect ownership of stock shall be taken into account.

“(3) APPROVAL OF PLAN BY BOARD OF DIRECTORS.—For purposes of—

“(A) paragraph (2), and

“(B) applying section 346(a)(2) of the Internal Revenue Code of 1986 (as in effect on the day before the

date of the enactment of this Act) [Sept. 3, 1982] to distributions to which (but for paragraph (2)) the amendments made by this section would apply, a plan of liquidation shall be treated as adopted when approved by the corporation’s board of directors.

“(4) COORDINATION WITH AMENDMENTS MADE BY SECTION 224.—For purposes of section 338(e)(2)(C) of the Internal Revenue Code of 1986 (as added by section 224), any property acquired in a distribution to which the amendments made by this section do not apply by reason of paragraph (2) shall be treated as acquired before September 1, 1982.”

EFFECTIVE DATE OF 1980 AMENDMENT

Amendment by Pub. L. 96-589 applicable to stock which is issued after Dec. 31, 1980, except as otherwise provided, see section 7(d)(2), (f) of Pub. L. 96-589, set out as a note under section 108 of this title.

SAVINGS PROVISIONS

Applicability of subsec. (b)(1) to the determination of gross investment income under sections 4940 and 4948(a) of this title, see section 101(l)(8) of Pub. L. 91-172, set out as a note under section 4940 of this title.

§ 303. Distributions in redemption of stock to pay death taxes

(a) In general

A distribution of property to a shareholder by a corporation in redemption of part or all of the stock of such corporation which (for Federal estate tax purposes) is included in determining the gross estate of a decedent, to the extent that the amount of such distribution does not exceed the sum of—

(1) the estate, inheritance, legacy, and succession taxes (including any interest collected as a part of such taxes) imposed because of such decedent’s death, and

(2) the amount of funeral and administration expenses allowable as deductions to the estate under section 2053 (or under section 2106 in the case of the estate of a decedent nonresident, not a citizen of the United States),

shall be treated as a distribution in full payment in exchange for the stock so redeemed.

(b) Limitations on application of subsection (a)

(1) Period for distribution

Subsection (a) shall apply only to amounts distributed after the death of the decedent and—

(A) within the period of limitations provided in section 6501(a) for the assessment of the Federal estate tax (determined without the application of any provision other than section 6501(a)), or within 90 days after the expiration of such period,

(B) if a petition for redetermination of a deficiency in such estate tax has been filed with the Tax Court within the time prescribed in section 6213, at any time before the expiration of 60 days after the decision of the Tax Court becomes final, or

(C) if an election has been made under section 6166 and if the time prescribed by this subparagraph expires at a later date than the time prescribed by subparagraph (B) of this paragraph, within the time determined under section 6166 for the payment of the installments.

(2) Relationship of stock to decedent's estate**(A) In general**

Subsection (a) shall apply to a distribution by a corporation only if the value (for Federal estate tax purposes) of all of the stock of such corporation which is included in determining the value of the decedent's gross estate exceeds 35 percent of the excess of—

- (i) the value of the gross estate of such decedent, over
- (ii) the sum of the amounts allowable as a deduction under section 2053 or 2054.

(B) Special rule for stock of two or more corporations

For purposes of subparagraph (A), stock of 2 or more corporations, with respect to each of which there is included in determining the value of the decedent's gross estate 20 percent or more in value of the outstanding stock, shall be treated as the stock of a single corporation. For purposes of the 20-percent requirement of the preceding sentence, stock which, at the decedent's death, represents the surviving spouse's interest in property held by the decedent and the surviving spouse as community property or as joint tenants, tenants by the entirety, or tenants in common shall be treated as having been included in determining the value of the decedent's gross estate.

(3) Relationship of shareholder to estate tax

Subsection (a) shall apply to a distribution by a corporation only to the extent that the interest of the shareholder is reduced directly (or through a binding obligation to contribute) by any payment of an amount described in paragraph (1) or (2) of subsection (a).

(4) Additional requirements for distributions made more than 4 years after decedent's death

In the case of amounts distributed more than 4 years after the date of the decedent's death, subsection (a) shall apply to a distribution by a corporation only to the extent of the lesser of—

- (A) the aggregate of the amounts referred to in paragraph (1) or (2) of subsection (a) which remained unpaid immediately before the distribution, or
- (B) the aggregate of the amounts referred to in paragraph (1) or (2) of subsection (a) which are paid during the 1-year period beginning on the date of such distribution.

(c) Stock with substituted basis

If—

- (1) a shareholder owns stock of a corporation (referred to in this subsection as "new stock") the basis of which is determined by reference to the basis of stock of a corporation (referred to in this subsection as "old stock"),
- (2) the old stock was included (for Federal estate tax purposes) in determining the gross estate of a decedent, and
- (3) subsection (a) would apply to a distribution of property to such shareholder in redemption of the old stock,

then, subject to the limitation specified in subsection (b), subsection (a) shall apply in respect of a distribution in redemption of the new stock.

(d) Special rules for generation-skipping transfers

Where stock in a corporation is the subject of a generation-skipping transfer (within the meaning of section 2611(a)) occurring at the same time as and as a result of the death of an individual—

- (1) the stock shall be deemed to be included in the gross estate of such individual;
- (2) taxes of the kind referred to in subsection (a)(1) which are imposed because of the generation-skipping transfer shall be treated as imposed because of such individual's death (and for this purpose the tax imposed by section 2601 shall be treated as an estate tax);
- (3) the period of distribution shall be measured from the date of the generation-skipping transfer; and
- (4) the relationship of stock to the decedent's estate shall be measured with reference solely to the amount of the generation-skipping transfer.

(Aug. 16, 1954, ch. 736, 68A Stat. 88; Pub. L. 94-455, title XX, § 2004(e), 2006(b)(4), Oct. 4, 1976, 90 Stat. 1871, 1889; Pub. L. 97-34, title IV, § 422(b), (e)(1), Aug. 13, 1981, 95 Stat. 314, 316; Pub. L. 99-514, title XIV, § 1432(b), Oct. 22, 1986, 100 Stat. 2730.)

AMENDMENTS

1986—Subsec. (d). Pub. L. 99-514 amended subsec. (d) generally. Prior to amendment, subsec. (d) read as follows: "Under regulations prescribed by the Secretary, where stock in a corporation is subject to tax under section 2601 as a result of a generation-skipping transfer (within the meaning of section 2611(a)), which occurs at or after the death of the deemed transferor (within the meaning of section 2612)—

- "(1) the stock shall be deemed to be included in the gross estate of the deemed transferor;
- "(2) taxes of the kind referred to in subsection (a)(1) which are imposed because of the generation-skipping transfer shall be treated as imposed because of the deemed transferor's death (and for this purpose the tax imposed by section 2601 shall be treated as an estate tax);
- "(3) the period of distribution shall be measured from the date of the generation-skipping transfer; and
- "(4) the relationship of stock to the decedent's estate shall be measured with reference solely to the amount of the generation-skipping transfer."

1981—Subsec. (b)(1)(C). Pub. L. 97-34, § 422(e)(1), struck out "or 6166A" after "section 6166" in two places.

Subsec. (b)(2)(A). Pub. L. 97-34, § 422(b)(1), substituted "35" for "50" before percent.

Subsec. (b)(2)(B). Pub. L. 97-34, § 422(b)(2), in heading, substituted "stock in 2" for "stock of two", in first sentence, struck out "the 50 percent requirement" before "of subparagraph (A)" and substituted "2" for "two" and "20 percent or more in value" for "more than 75 percent in value", and, in last sentence, substituted "For purposes of the 20-percent requirement" for "For the purpose of the 75 percent requirement" and, in determining value of decedent's gross estate, treated the estate as including stock which at decedent's death represented surviving spouse's interest in property held by the decedent and surviving spouse either as joint tenants, tenants by the entirety, or tenants in common.

1976—Subsec. (b)(1)(C). Pub. L. 94-455, § 2004(e)(1), added subpar. (C).

Subsec. (b)(2)(A). Pub. L. 94-455, § 2004(e)(2)(A), substituted provisions limiting the applicability of subsec. (a) to corporate distributions in which the value of the corporate stock included in decedent's gross estate ex-

ceeds 50 percent of the gross estate over deductions allowed under sections 2053 and 2054 for provisions limiting the applicability of subsec. (a) to corporate distributions in which the value of the corporate stock included in decedent's gross estate is either more than 35 percent of the gross estate or 50 percent of the taxable estate.

Subsec. (b)(2)(B). Pub. L. 94-455, §2004(e)(2)(B), substituted "the 50 percent requirement" for "the 35 percent and 50 percent requirements".

Subsec. (b)(3), (4). Pub. L. 94-455, §2004(e)(3), added pars. (3) and (4).

Subsec. (c). Pub. L. 94-455, §2004(e)(4), substituted "limitation specified in subsection (b)" for "limitation specified in subsection (b)(1)".

Subsec. (d). Pub. L. 94-455, §2006(b)(4), added subsec. (d).

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to generation-skipping transfers (within the meaning of section 2611 of this title) made after Oct. 22, 1986, except as otherwise provided, see section 1433 of Pub. L. 99-514, set out as an Effective Date note under section 2601 of this title.

EFFECTIVE DATE OF 1981 AMENDMENT

Amendment by Pub. L. 97-34 applicable to estates of decedents dying after Dec. 31, 1981, see section 422(f) of Pub. L. 97-34, set out as a note under section 6166 of this title.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 2004(e)(1)-(4) of Pub. L. 94-455 applicable to estates of decedents dying after Dec. 31, 1976, see section 2004(g) of Pub. L. 94-455, set out as an Effective Date note under section 6166 of this title.

For effective date of amendment by section 2006(b)(4) of Pub. L. 94-455, see section 2006(c) of Pub. L. 94-455, set out as an Effective Date note under section 2601 of this title.

§ 304. Redemption through use of related corporations

(a) Treatment of certain stock purchases

(1) Acquisition by related corporation (other than subsidiary)

For purposes of sections 302 and 303, if—

(A) one or more persons are in control of each of two corporations, and

(B) in return for property, one of the corporations acquires stock in the other corporation from the person (or persons) so in control,

then (unless paragraph (2) applies) such property shall be treated as a distribution in redemption of the stock of the corporation acquiring such stock. To the extent that such distribution is treated as a distribution to which section 301 applies, the transferor and the acquiring corporation shall be treated in the same manner as if the transferor had transferred the stock so acquired to the acquiring corporation in exchange for stock of the acquiring corporation in a transaction to which section 351(a) applies, and then the acquiring corporation had redeemed the stock it was treated as issuing in such transaction.

(2) Acquisition by subsidiary

For purposes of sections 302 and 303, if—

(A) in return for property, one corporation acquires from a shareholder of another corporation stock in such other corporation, and

(B) the issuing corporation controls the acquiring corporation,

then such property shall be treated as a distribution in redemption of the stock of the issuing corporation.

(b) Special rules for application of subsection (a)

(1) Rules for determinations under section 302(b)

In the case of any acquisition of stock to which subsection (a) of this section applies, determinations as to whether the acquisition is, by reason of section 302(b), to be treated as a distribution in part or full payment in exchange for the stock shall be made by reference to the stock of the issuing corporation. In applying section 318(a) (relating to constructive ownership of stock) with respect to section 302(b) for purposes of this paragraph, sections 318(a)(2)(C) and 318(a)(3)(C) shall be applied without regard to the 50 percent limitation contained therein.

(2) Amount constituting dividend

In the case of any acquisition of stock to which subsection (a) applies, the determination of the amount which is a dividend (and the source thereof) shall be made as if the property were distributed—

(A) by the acquiring corporation to the extent of its earnings and profits, and

(B) then by the issuing corporation to the extent of its earnings and profits.

(3) Coordination with section 351

(A) Property treated as received in redemption

Except as otherwise provided in this paragraph, subsection (a) (and not section 351 and not so much of sections 357 and 358 as relates to section 351) shall apply to any property received in a distribution described in subsection (a).

(B) Certain assumptions of liability, etc.

(i) In general

In the case of an acquisition described in section 351, subsection (a) shall not apply to any liability—

(I) assumed by the acquiring corporation, or

(II) to which the stock is subject,

if such liability was incurred by the transferor to acquire the stock. For purposes of the preceding sentence, the term "stock" means stock referred to in paragraph (1)(B) or (2)(A) of subsection (a).

(ii) Extension of obligations, etc.

For purposes of clause (i), an extension, renewal, or refinancing of a liability which meets the requirements of clause (i) shall be treated as meeting such requirements.

(iii) Clause (i) does not apply to stock acquired from related person except where complete termination

Clause (i) shall apply only to stock acquired by the transferor from a person—

(I) none of whose stock is attributable to the transferor under section 318(a) (other than paragraph (4) thereof), or

(II) who satisfies rules similar to the rules of section 302(c)(2) with respect to both the acquiring and the issuing corporations (determined as if such person were a distributee of each such corporation).

(C) Distributions incident to formation of bank holding companies

If—

(i) pursuant to a plan, control of a bank is acquired and within 2 years after the date on which such control is acquired, stock constituting control of such bank is transferred to a BHC in connection with its formation,

(ii) incident to the formation of the BHC there is a distribution of property described in subsection (a), and

(iii) the shareholders of the BHC who receive distributions of such property do not have control of such BHC,

then, subsection (a) shall not apply to any securities received by a qualified minority shareholder incident to the formation of such BHC. For purposes of this subparagraph, any assumption of (or acquisition of stock subject to) a liability under subparagraph (B) shall not be treated as a distribution of property.

(D) Definitions and special rule

For purposes of subparagraph (C) and this subparagraph—

(i) Qualified minority shareholder

The term “qualified minority shareholder” means any shareholder who owns less than 10 percent (in value) of the stock of the BHC. For purposes of the preceding sentence, the rules of paragraph (3) of subsection (c) shall apply.

(ii) BHC

The term “BHC” means a bank holding company (within the meaning of section 2(a) of the Bank Holding Company Act of 1956).

(iii) Special rule in case of BHC’s formed before 1985

In the case of a BHC which is formed before 1985, clause (i) of subparagraph (C) shall not apply.

(4) Treatment of certain intragroup transactions

(A) In general

In the case of any transfer described in subsection (a) of stock from 1 member of an affiliated group to another member of such group, proper adjustments shall be made to—

(i) the adjusted basis of any intragroup stock, and

(ii) the earnings and profits of any member of such group,

to the extent necessary to carry out the purposes of this section.

(B) Definitions

For purposes of this paragraph—

(i) Affiliated group

The term “affiliated group” has the meaning given such term by section 1504(a).

(ii) Intragroup stock

The term “intragroup stock” means any stock which—

(I) is in a corporation which is a member of an affiliated group, and

(II) is held by another member of such group.

(5) Acquisitions by foreign corporations

(A) In general

In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, the only earnings and profits taken into account under paragraph (2)(A) shall be those earnings and profits—

(i) which are attributable (under regulations prescribed by the Secretary) to stock of the acquiring corporation owned (within the meaning of section 958(a)) by a corporation or individual which is—

(I) a United States shareholder (within the meaning of section 951(b)) of the acquiring corporation, and

(II) the transferor or a person who bears a relationship to the transferor described in section 267(b) or 707(b), and

(ii) which were accumulated during the period or periods such stock was owned by such person while the acquiring corporation was a controlled foreign corporation.

(B) Regulations

The Secretary shall prescribe such regulations as are appropriate to carry out the purposes of this paragraph.

(6) Avoidance of multiple inclusions, etc.

In the case of any acquisition to which subsection (a) applies in which the acquiring corporation or the issuing corporation is a foreign corporation, the Secretary shall prescribe such regulations as are appropriate in order to eliminate a multiple inclusion of any item in income by reason of this subpart and to provide appropriate basis adjustments (including modifications to the application of sections 959 and 961).

(c) Control

(1) In general

For purposes of this section, control means the ownership of stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote, or at least 50 percent of the total value of shares of all classes of stock. If a person (or persons) is in control (within the meaning of the preceding sentence) of a corporation which in turn owns at least 50 percent of the total combined voting power of all stock entitled to vote of another corporation, or owns at least 50 percent of the total value of the shares of all classes of stock of another corporation, then such person (or persons) shall be treated as in control of such other corporation.

(2) Stock acquired in the transaction

For purposes of subsection (a)(1)—

(A) General rule

Where 1 or more persons in control of the issuing corporation transfer stock of such corporation in exchange for stock of the acquiring corporation, the stock of the acquiring corporation received shall be taken into account in determining whether such person or persons are in control of the acquiring corporation.

(B) Definition of control group

Where 2 or more persons in control of the issuing corporation transfer stock of such corporation to the acquiring corporation and, after the transfer, the transferors are in control of the acquiring corporation, the person or persons in control of each corporation shall include each of the persons who so transfer stock.

(3) Constructive ownership**(A) In general**

Section 318(a) (relating to constructive ownership of stock) shall apply for purposes of determining control under this section.

(B) Modification of 50-percent limitations in section 318

For purposes of subparagraph (A)—

(i) paragraph (2)(C) of section 318(a) shall be applied by substituting “5 percent” for “50 percent”, and

(ii) paragraph (3)(C) of section 318(a) shall be applied—

(I) by substituting “5 percent” for “50 percent”, and

(II) in any case where such paragraph would not apply but for subclause (I), by considering a corporation as owning the stock (other than stock in such corporation) owned by or for any shareholder of such corporation in that proportion which the value of the stock which such shareholder owned in such corporation bears to the value of all stock in such corporation.

(Aug. 16, 1954, ch. 736, 68A Stat. 89; Pub. L. 88-554, §4(b)(1), Aug. 31, 1964, 78 Stat. 763; Pub. L. 97-248, title II, §226(a)(1)(A), (2), (3), Sept. 3, 1982, 96 Stat. 490, 491; Pub. L. 98-369, div. A, title VII, §712(l)(1)–(5)(A), July 18, 1984, 98 Stat. 953, 954; Pub. L. 99-514, title XVIII, §1875(b), Oct. 22, 1986, 100 Stat. 2894; Pub. L. 100-203, title X, §10223(c), Dec. 22, 1987, 101 Stat. 1330-411; Pub. L. 100-647, title II, §2004(k)(2), Nov. 10, 1988, 102 Stat. 3605; Pub. L. 105-34, title X, §1013(a), (c), Aug. 5, 1997, 111 Stat. 918; Pub. L. 105-206, title VI, §6010(d), July 22, 1998, 112 Stat. 814.)

REFERENCES IN TEXT

Section 2(a) of the Bank Holding Company Act of 1956, referred to in subsec. (b)(3)(D)(ii), is classified to section 1841(a) of Title 12, Banks and Banking.

AMENDMENTS

1998—Subsec. (b)(5)(B), (C), Pub. L. 105-206, §6010(d)(1), redesignated subpar. (C) as (B) and struck out heading and text of former subpar. (B). Text read as follows: “For purposes of subparagraph (A), the rules of section

1248(d) shall apply except to the extent otherwise provided by the Secretary.”

Subsec. (b)(6), Pub. L. 105-206, §6010(d)(2), added par. (6).

1997—Subsec. (a)(1), Pub. L. 105-34, §1013(a), amended last sentence generally. Prior to amendment, last sentence read as follows: “To the extent that such distribution is treated as a distribution to which section 301 applies, the stock so acquired shall be treated as having been transferred by the person from whom acquired, and as having been received by the corporation acquiring it, as a contribution to the capital of such corporation.”

Subsec. (b)(5), Pub. L. 105-34, §1013(c), added par. (5).

1988—Subsec. (b)(4)(A), Pub. L. 100-647 substituted “stock from 1 member” for “stock of 1 member”.

1987—Subsec. (b)(4), Pub. L. 100-203 added par. (4).

1986—Subsec. (a)(1), Pub. L. 99-514 substituted “To the extent that such distribution is treated as a distribution to which section 301 applies” for “In any such case” in last sentence.

1984—Subsec. (b)(2), Pub. L. 98-369, §712(l)(1), consolidated former subpars. “(A) Where subsection (a)(1) applies” and “(B) Where subsection (a)(2) applies” in one paragraph, inserted provision respecting source of dividend, and incorporated in cls. (A) and (B) former subpar. (A) and (B) provisions which had required determination of amount which is a dividend to be made by reference to earnings and profits of the acquiring corporation and as if the property were distributed by the acquiring corporation to the issuing corporation and immediately thereafter distributed by the issuing corporation.

Subsec. (b)(3)(A), Pub. L. 98-369, §712(l)(2), substituted “section 351 and not so much of sections 357 and 358 as relates to section 351” for “part III”.

Subsec. (b)(3)(B)(i), Pub. L. 98-369, §712(l)(3)(A)(i), substituted “In the case of an acquisition described in section 351, subsection (a)” for “Subsection (a)”.

Subsec. (b)(3)(B)(iii), Pub. L. 98-369, §712(l)(3)(B), added cl. (iii).

Subsec. (b)(3)(C), Pub. L. 98-369, §712(l)(4), inserted following cl. (iii) “For purposes of this subparagraph, any assumption of (or acquisition of stock subject to) a liability under subparagraph (B) shall not be treated as a distribution of property.”

Subsec. (c)(3), Pub. L. 98-369, §712(l)(5)(A), designated existing first sentence as subpar. “(A) In general” and substituted subpar. (B) for former second sentence which read “For purposes of the preceding sentence, sections 318(a)(2)(C) and 318(a)(3)(C) shall be applied without regard to the 50 percent limitation contained therein.”

1982—Subsec. (b)(2)(A), Pub. L. 97-248, §226(a)(3), substituted “as if the property were distributed by the issuing corporation to the acquiring corporation and immediately thereafter distributed by the acquiring corporation” for “solely by reference to the earnings and profits of the acquiring corporation” after “dividend shall be made”.

Subsec. (b)(3), Pub. L. 97-248, §226(a)(1)(A), added par. (3).

Subsec. (c)(2), (3), Pub. L. 97-248, §226(a)(2), added par. (2), redesignated former par. (2) as (3) and substituted “this section” for “paragraph (1)” after “determining control under”.

1964—Subsecs. (b)(1), (c)(2), Pub. L. 88-554 inserted reference to section 318(a)(3)(C) of this title.

EFFECTIVE DATE OF 1998 AMENDMENT

Amendment by Pub. L. 105-206 effective, except as otherwise provided, as if included in the provisions of the Taxpayer Relief Act of 1997, Pub. L. 105-34, to which such amendment relates, see section 6024 of Pub. L. 105-206, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1997 AMENDMENT

Section 1013(d) of Pub. L. 105-34 provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and section 1059 of this

title] shall apply to distributions and acquisitions after June 8, 1997.

“(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution or acquisition after June 8, 1997, if such distribution or acquisition is—

“(A) made pursuant to a written agreement which was binding on such date and at all times thereafter,

“(B) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

“(C) described in a public announcement or filing with the Securities and Exchange Commission on or before such date.”

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provisions of the Revenue Act of 1987, Pub. L. 100-203, title X, to which such amendment relates, see section 2004(u) of Pub. L. 100-647, set out as a note under section 56 of this title.

EFFECTIVE DATE OF 1987 AMENDMENT

Section 10223(d) of Pub. L. 100-203, as amended by Pub. L. 100-647, title II, §2004(k)(3), (4), Nov. 10, 1988, 102 Stat. 3605, 3606, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 337 and 355 of this title] shall apply to distributions or transfers after December 15, 1987.

“(2) EXCEPTIONS.—

“(A) DISTRIBUTIONS.—The amendments made by this section shall not apply to any distribution after December 15, 1987, and before January 1, 1993, if—

“(i) 80 percent or more of the stock of the distributing corporation was acquired by the distributee before December 15, 1987, or

“(ii) 80 percent or more of the stock of the distributing corporation was acquired by the distributee before January 1, 1989, pursuant to a binding written contract or tender offer in effect on December 15, 1987.

For purposes of the preceding sentence, stock described in section 1504(a)(4) of the Internal Revenue Code of 1986 shall not be taken into account.

“(B) SECTION 304 TRANSFERS.—The amendment made by subsection (c) [amending this section] shall not apply to any transfer after December 15, 1987, and on or before March 31, 1988, if such transfer is—

“(i) between corporations which are members of the same affiliated group on December 15, 1987, or

“(ii) between corporations which become members of the same affiliated group pursuant to a binding written contract or tender offer in effect on December 15, 1987.

“(C) DISTRIBUTIONS COVERED BY PRIOR TRANSITION RULE.—The amendments made by this section shall not apply to any distribution to which the amendments made by subtitle D of title VI of the Tax Reform Act of 1986 [sections 631 to 634 of Pub. L. 99-514, see Tables for classification] do not apply.

“(D) TREATMENT OF CERTAIN MEMBERS OF AFFILIATED GROUP.—

“(i) IN GENERAL.—For purposes of subparagraph (A), all corporations which were in existence on the designated date and were members of the same affiliated group which included the distributees on such date shall be treated as 1 distributee.

“(ii) LIMITATION TO STOCK HELD ON DESIGNATED DATE.—Clause (i) shall not exempt any distribution from the amendments made by this section if such distribution is with respect to stock not held by the distributee (determined without regard to clause (i)) on the designated date directly or indirectly through a corporation which goes out of existence in the transaction.

“(iii) DESIGNATED DATE.—For purposes of this subparagraph, the term ‘designated date’ means the later of—

“(I) December 15, 1987, or

“(II) the date on which the acquisition meeting the requirements of subparagraph (A) occurred.”

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Section 712(l)(7) of Pub. L. 98-369, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by paragraphs (1) and (3) [amending this section] shall apply to stock acquired after June 18, 1984, in taxable years ending after such date.

“(B) ELECTION BY TAXPAYER TO HAVE AMENDMENTS APPLY EARLIER.—Any taxpayer may elect, at such time and in such manner as the Secretary of the Treasury or his delegate may prescribe, to have the amendments made by paragraphs (1) and (3) apply as if included in section 226 of the Tax Equity and Fiscal Responsibility Act of 1982 [section 226 of Pub. L. 97-248, which amended this section and section 306 of this title and enacted Effective Date of 1982 Amendment note set out below].

“(C) SPECIAL RULE FOR CERTAIN TRANSFERS TO FORM BANK HOLDING COMPANY.—Except as provided in subparagraph (D), the amendments made by paragraphs (1) and (3) shall not apply to transfers pursuant to an application to form a BHC (as defined in section 304(b)(3)(D)(ii) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954]) filed with the Federal Reserve Board before June 18, 1984, if—

“(i) such BHC was formed not later than the 90th day after the date of the last required approval of any regulatory authority to form such BHC, and

“(ii) such BHC did not elect (at such time and in such manner as the Secretary of the Treasury or his delegate shall prescribe) not to have the provisions of this subparagraph apply.

“(D) AMENDMENTS TO APPLY TO CERTAIN LIABILITIES INCURRED BEFORE OCTOBER 20, 1983.—The amendment made by paragraph (3)(A) shall apply to the acquisition of any stock to the extent the liability assumed, or to which such stock is subject, was incurred by the transferor after October 20, 1983.”

Amendment by section 712(l)(2), (4), (5)(A) of Pub. L. 98-369 effective as if included in the provision of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 715 of Pub. L. 98-369, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1982 AMENDMENT

Section 226(c) of Pub. L. 97-248 provided that:

“(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section [amending this section and sections 306 and 351 of this title] shall apply to transfers occurring after August 31, 1982, in taxable years ending after such date.

“(2) APPROVAL BY FEDERAL RESERVE BOARD.—The amendments made by this section shall not apply to transfers pursuant to an application to form a BHC filed with the Federal Reserve Board before August 16, 1982, if the BHC was formed not later than the later of—

“(A) the 90th day after the date of the last required approval of any regulatory authority to form such BHC, or

“(B) January 1, 1983.

For purposes of this paragraph, the term ‘BHC’ means a bank holding company (within the meaning of section 2(a) of the Bank Holding Company Act of 1956 [section 1841(a) of Title 12, Banks and Banking]).’

EFFECTIVE DATE OF 1964 AMENDMENT

Amendment by Pub. L. 88-554 effective Aug. 31, 1964, except that for purposes of this section and section 302

of this title, such amendments shall not apply to distributions in payment for stock acquisitions or redemptions, if such acquisition or redemption occurred before Aug. 31, 1964, see section 4(c) of Pub. L. 88-554, set out as a note under section 318 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [§§ 1101-1147 and 1171-1177] or title XVIII [§§ 1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

§ 305. Distributions of stock and stock rights

(a) General rule

Except as otherwise provided in this section, gross income does not include the amount of any distribution of the stock of a corporation made by such corporation to its shareholders with respect to its stock.

(b) Exceptions

Subsection (a) shall not apply to a distribution by a corporation of its stock, and the distribution shall be treated as a distribution of property to which section 301 applies—

(1) Distributions in lieu of money

If the distribution is, at the election of any of the shareholders (whether exercised before or after the declaration thereof), payable either—

- (A) in its stock, or
- (B) in property.

(2) Disproportionate distributions

If the distribution (or a series of distributions of which such distribution is one) has the result of—

- (A) the receipt of property by some shareholders, and
- (B) an increase in the proportionate interests of other shareholders in the assets or earnings and profits of the corporation.

(3) Distributions of common and preferred stock

If the distribution (or a series of distributions of which such distribution is one) has the result of—

- (A) the receipt of preferred stock by some common shareholders, and
- (B) the receipt of common stock by other common shareholders.

(4) Distributions on preferred stock

If the distribution is with respect to preferred stock, other than an increase in the conversion ratio of convertible preferred stock made solely to take account of a stock dividend or stock split with respect to the stock into which such convertible stock is convertible.

(5) Distributions of convertible preferred stock

If the distribution is of convertible preferred stock, unless it is established to the satisfaction of the Secretary that such distribution will not have the result described in paragraph (2).

(c) Certain transactions treated as distributions

For purposes of this section and section 301, the Secretary shall prescribe regulations under which a change in conversion ratio, a change in redemption price, a difference between redemption price and issue price, a redemption which is treated as a distribution to which section 301 applies, or any transaction (including a recapitalization) having a similar effect on the interest of any shareholder shall be treated as a distribution with respect to any shareholder whose proportionate interest in the earnings and profits or assets of the corporation is increased by such change, difference, redemption, or similar transaction. Regulations prescribed under the preceding sentence shall provide that—

(1) where the issuer of stock is required to redeem the stock at a specified time or the holder of stock has the option to require the issuer to redeem the stock, a redemption premium resulting from such requirement or option shall be treated as reasonable only if the amount of such premium does not exceed the amount determined under the principles of section 1273(a)(3),

(2) a redemption premium shall not fail to be treated as a distribution (or series of distributions) merely because the stock is callable, and

(3) in any case in which a redemption premium is treated as a distribution (or series of distributions), such premium shall be taken into account under principles similar to the principles of section 1272(a).

(d) Definitions

(1) Rights to acquire stock

For purposes of this section, the term “stock” includes rights to acquire such stock.

(2) Shareholders

For purposes of subsections (b) and (c), the term “shareholder” includes a holder of rights or of convertible securities.

(e) Treatment of purchaser of stripped preferred stock

(1) In general

If any person purchases after April 30, 1993, any stripped preferred stock, then such person, while holding such stock, shall include in gross income amounts equal to the amounts which would have been so includible if such stripped preferred stock were a bond issued on the purchase date and having original issue discount equal to the excess, if any, of—

- (A) the redemption price for such stock, over
- (B) the price at which such person purchased such stock.

The preceding sentence shall also apply in the case of any person whose basis in such stock is determined by reference to the basis in the hands of such purchaser.

(2) Basis adjustments

Appropriate adjustments to basis shall be made for amounts includible in gross income under paragraph (1).

(3) Tax treatment of person stripping stock

If any person strips the rights to 1 or more dividends from any stock described in para-

graph (5)(B) and after April 30, 1993, disposes of such dividend rights, for purposes of paragraph (1), such person shall be treated as having purchased the stripped preferred stock on the date of such disposition for a purchase price equal to such person's adjusted basis in such stripped preferred stock.

(4) Amounts treated as ordinary income

Any amount included in gross income under paragraph (1) shall be treated as ordinary income.

(5) Stripped preferred stock

For purposes of this subsection—

(A) In general

The term “stripped preferred stock” means any stock described in subparagraph (B) if there has been a separation in ownership between such stock and any dividend on such stock which has not become payable.

(B) Description of stock

Stock is described in this subsection if such stock—

(i) is limited and preferred as to dividends and does not participate in corporate growth to any significant extent, and

(ii) has a fixed redemption price.

(6) Purchase

For purposes of this subsection, the term “purchase” means—

(A) any acquisition of stock, where

(B) the basis of such stock is not determined in whole or in part by the reference to the adjusted basis of such stock in the hands of the person from whom acquired.

(7) Cross reference

For treatment of stripped interests in certain accounts or entities holding preferred stock, see section 1286(f).

(f) Cross references

For special rules—

(1) Relating to the receipt of stock and stock rights in corporate organizations and reorganizations, see part III (sec. 351 and following).

(2) In the case of a distribution which results in a gift, see section 2501 and following.

(3) In the case of a distribution which has the effect of the payment of compensation, see section 61(a)(1).

(Aug. 16, 1954, ch. 736, 68A Stat. 90; Pub. L. 91-172, title IV, §421(a), Dec. 30, 1969, 83 Stat. 614; Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 97-34, title III, §321(a), (b), Aug. 13, 1981, 95 Stat. 287, 289; Pub. L. 97-448, title I, §103(f), Jan. 12, 1983, 96 Stat. 2378; Pub. L. 101-508, title XI, §§11322(a), 11801(a)(17), (c)(7), Nov. 5, 1990, 104 Stat. 1388-463, 1388-521, 1388-524; Pub. L. 103-66, title XIII, §13206(c)(1), Aug. 10, 1993, 107 Stat. 465; Pub. L. 108-357, title VIII, §831(b), Oct. 22, 2004, 118 Stat. 1587.)

AMENDMENTS

2004—Subsec. (e)(7). Pub. L. 108-357 added par. (7).

1993—Subsecs. (e), (f). Pub. L. 103-66 added subsec. (e) and redesignated former subsec. (e) as (f).

1990—Subsec. (c). Pub. L. 101-508, §11322(a), inserted sentence at end specifying the contents of regulations.

Subsec. (d)(1). Pub. L. 101-508, §11801(c)(7)(A), struck out “(other than subsection (e))” after “this section”.

Subsecs. (e), (f). Pub. L. 101-508, §11801(a)(17), (c)(7)(B), redesignated subsec. (f) as (e) and struck out former subsec. (e) relating to dividend reinvestment in stock of public utilities.

1983—Subsec. (e)(3)(A). Pub. L. 97-448, §103(f)(1), substituted “placed in service qualified long-life public utility property having a cost equal to at least 60 percent of the aggregate cost of all tangible property described in subparagraph (A) or (B) of section 1245(a)(3) placed in service by the corporation during such period” for “acquired public utility recovery property having a cost equal to at least 60 percent of the aggregate cost of all tangible property described in section 1245(a)(3) (other than subparagraphs (C) and (D) thereof) acquired by the corporation during such period”.

Subsec. (e)(3)(C)(ii). Pub. L. 97-448, §103(f)(2), substituted definition of “qualified long-life public utility property” for definition of “public utility recovery property” which had been defined as public utility property (within the meaning of section 167(l)(3)(A)) which was recovery property which was 10-year property or 15-year public utility property (within the meaning of section 168), except that any requirement that the property be placed in service after December 31, 1980, did not apply.

1981—Subsec. (d)(1). Pub. L. 97-34, §321(b), inserted “(other than subsection (e))” after “this section”.

Subsecs. (e), (f). Pub. L. 97-34, §321(a), added subsec. (e) and redesignated former subsec. (e) as (f).

1976—Subsecs. (b)(5), (c). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

1969—Subsec. (a). Pub. L. 91-172 substituted reference to this section for reference to subsec. (b), and omitted reference to rights to acquire its stock.

Subsec. (b). Pub. L. 91-172 omitted reference to rights to acquire its stock, in text preceding par. (1), redesignated former par. (2) as par. (1) and added pars. (2) to (5). Former par. (1), providing for the extent to which distribution of preference dividends were to be treated as distribution of property to which section 301 applied, was struck out.

Subsecs. (c) to (e). Pub. L. 91-172 added subsecs. (c) and (d) and redesignated former subsec. (c) as (e).

EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title VIII, §831(c), Oct. 22, 2004, 118 Stat. 1587, provided that: “The amendments made by this section [amending this section and section 1286 of this title] shall apply to purchases and dispositions after the date of the enactment of this Act [Oct. 22, 2004].”

EFFECTIVE DATE OF 1993 AMENDMENT

Amendment by Pub. L. 103-66 effective Apr. 30, 1993, see section 13206(c)(3) of Pub. L. 103-66 set out as a note under section 167 of this title.

EFFECTIVE DATE OF 1990 AMENDMENT

Section 11322(b) of Pub. L. 101-508 provided that:

“(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendment made by subsection (a) [amending this section] shall apply to stock issued after October 9, 1990.

“(2) **EXCEPTION.**—The amendment made by subsection (a) shall not apply to any stock issued after October 9, 1990, if—

“(A) such stock is issued pursuant to a written binding contract in effect on October 9, 1990, and at all times thereafter before such issuance,

“(B) such stock is issued pursuant to a registration or offering statement filed on or before October 9, 1990, with a Federal or State agency regulating the offering or sale of securities and such stock is issued before the date 90 days after the date of such filing, or

“(C) such stock is issued pursuant to a plan filed on or before October 9, 1990, in a title 11 or similar case (as defined in section 368(a)(3)(A) of the Internal Revenue Code of 1986).”

EFFECTIVE DATE OF 1983 AMENDMENT

Amendment by Pub. L. 97-448 effective, except as otherwise provided, as if it had been included in the provision of the Economic Recovery Tax Act of 1981, Pub. L. 97-34, to which such amendment relates, see section 109 of Pub. L. 97-448, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1981 AMENDMENT

Section 321(c) of Pub. L. 97-34 provided that: "The amendments made by this section [amending this section] shall apply to distributions after December 31, 1981, in taxable years ending after such date."

EFFECTIVE DATE OF 1969 AMENDMENT

Section 421(b) of Pub. L. 91-172, as amended by Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

"(1) Except as otherwise provided in this subsection, the amendment made by subsection (a) [amending this section] shall apply with respect to distributions (or deemed distributions) made after January 10, 1969, in taxable years ending after such date.

"(2)(A) Section 305(b)(2) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] (as added by subsection (a)) shall not apply to a distribution (or deemed distribution) of stock made before January 1, 1991, with respect to stock (i) outstanding on January 10, 1969, (ii) issued pursuant to a contract binding on January 10, 1969, on the distributing corporation, (iii) which is additional stock of that class of stock which (as of January 10, 1969) had the largest fair market value of all classes of stock of the corporation (taking into account only stock outstanding on January 10, 1969, or issued pursuant to a contract binding on January 10, 1969), (iv) described in subparagraph (C)(iii), or (v) issued in a prior distribution described in clause (i), (ii), (iii), or (iv).

"(B) Subparagraph (A) shall apply only if—

"(i) the stock as to which there is a receipt of property was outstanding on January 10, 1969 (or was issued pursuant to a contract binding on January 10, 1969, on the distributing corporation), and

"(ii) if such stock and any stock described in subparagraph (A)(i) were also outstanding on January 10, 1968, a distribution of property was made on or before January 10, 1969, with respect to such stock, and a distribution of stock was made on or before January 10, 1969, with respect to such stock described in subparagraph (A)(i).

"(C) Subparagraph (A) shall cease to apply when at any time after October 9, 1969, the distributing corporation issues any of its stock (other than in a distribution of stock with respect to stock of the same class) which is not—

"(i) nonconvertible preferred stock.

"(ii) additional stock of that class of stock which meets the requirements of subparagraph (A)(iii), or

"(iii) preferred stock which is convertible into stock which meets the requirements of subparagraph (A)(iii) at a fixed conversion ratio which takes account of all stock dividends and stock splits with respect to the stock into which such convertible stock is convertible.

"(D) For purposes of this paragraph, the term 'stock' includes rights to acquire such stock.

"(3) In cases to which Treasury Decision 6990 (promulgated January 10, 1969) would not have applied, in applying paragraphs (1) and (2) April 22, 1969, shall be substituted for January 10, 1969.

"(4) Section 305(b)(4) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall not apply to any distribution (or deemed distribution) with respect to preferred stock (including any increase in the conversion ratio of convertible stock) made before January 1, 1991, pursuant to the terms relating to the issuance of such stock which were in effect on January 10, 1969.

"(5) With respect to distributions made or considered as made after January 10, 1969, in taxable years ending after such date, to the extent that the amendment made by subsection (a) [amending this section] does

not apply by reason of paragraph (2), (3), or (4) of this subsection, section 305 of the Internal Revenue Code of 1986 (as in effect before the amendment made by subsection (a)) shall continue to apply."

SAVINGS PROVISION

For provisions that nothing in amendment by section 11801(a)(17), (c)(7) of Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

§ 306. Dispositions of certain stock**(a) General rule**

If a shareholder sells or otherwise disposes of section 306 stock (as defined in subsection (c))—

(1) Dispositions other than redemptions

If such disposition is not a redemption (within the meaning of section 317(b))—

(A) The amount realized shall be treated as ordinary income. This subparagraph shall not apply to the extent that—

(i) the amount realized, exceeds

(ii) such stock's ratable share of the amount which would have been a dividend at the time of distribution if (in lieu of section 306 stock) the corporation had distributed money in an amount equal to the fair market value of the stock at the time of distribution.

(B) Any excess of the amount realized over the sum of—

(i) the amount treated under subparagraph (A) as ordinary income, plus

(ii) the adjusted basis of the stock,

shall be treated as gain from the sale of such stock.

(C) No loss shall be recognized.

(D) TREATMENT AS DIVIDEND.—For purposes of section 1(h)(11) and such other provisions as the Secretary may specify, any amount treated as ordinary income under this paragraph shall be treated as a dividend received from the corporation.

(2) Redemption

If the disposition is a redemption, the amount realized shall be treated as a distribution of property to which section 301 applies.

(b) Exceptions

Subsection (a) shall not apply—

(1) Termination of shareholder's interest, etc.**(A) Not in redemption**

If the disposition—

(i) is not a redemption;

(ii) is not, directly or indirectly, to a person the ownership of whose stock would (under section 318(a)) be attributable to the shareholder; and

(iii) terminates the entire stock interest of the shareholder in the corporation (and for purposes of this clause, section 318(a) shall apply).

(B) In redemption

If the disposition is a redemption and paragraph (3) or (4) of section 302(b) applies.

(2) Liquidations

If the section 306 stock is redeemed in a distribution in complete liquidation to which part II (sec. 331 and following) applies.

(3) Where gain or loss is not recognized

To the extent that, under any provision of this subtitle, gain or loss to the shareholder is not recognized with respect to the disposition of the section 306 stock.

(4) Transactions not in avoidance

If it is established to the satisfaction of the Secretary—

(A) that the distribution, and the disposition or redemption, or

(B) in the case of a prior or simultaneous disposition (or redemption) of the stock with respect to which the section 306 stock disposed of (or redeemed) was issued, that the disposition (or redemption) of the section 306 stock,

was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income tax.

(c) Section 306 stock defined**(1) In general**

For purposes of this subchapter, the term “section 306 stock” means stock which meets the requirements of subparagraph (A), (B), or (C) of this paragraph.

(A) Distributed to seller

Stock (other than common stock issued with respect to common stock) which was distributed to the shareholder selling or otherwise disposing of such stock if, by reason of section 305(a), any part of such distribution was not includible in the gross income of the shareholder.

(B) Received in a corporate reorganization or separation

Stock which is not common stock and—

(i) which was received, by the shareholder selling or otherwise disposing of such stock, in pursuance of a plan of reorganization (within the meaning of section 368(a)), or in a distribution or exchange to which section 355 (or so much of section 356 as relates to section 355) applied, and

(ii) with respect to the receipt of which gain or loss to the shareholder was to any extent not recognized by reason of part III, but only to the extent that either the effect of the transaction was substantially the same as the receipt of a stock dividend, or the stock was received in exchange for section 306 stock.

For purposes of this section, a receipt of stock to which the foregoing provisions of this subparagraph apply shall be treated as a distribution of stock.

(C) Stock having transferred or substituted basis

Except as otherwise provided in subparagraph (B), stock the basis of which (in the hands of the shareholder selling or otherwise disposing of such stock) is determined by

reference to the basis (in the hands of such shareholder or any other person) of section 306 stock.

(2) Exception where no earnings and profits

For purposes of this section, the term “section 306 stock” does not include any stock no part of the distribution of which would have been a dividend at the time of the distribution if money had been distributed in lieu of the stock.

(3) Certain stock acquired in section 351 exchange

The term “section 306 stock” also includes any stock which is not common stock acquired in an exchange to which section 351 applied if receipt of money (in lieu of the stock) would have been treated as a dividend to any extent. Rules similar to the rules of section 304(b)(2) shall apply—

(A) for purposes of the preceding sentence, and

(B) for purposes of determining the application of this section to any subsequent disposition of stock which is section 306 stock by reason of an exchange described in the preceding sentence.

(4) Application of attribution rules for certain purposes

For purposes of paragraphs (1)(B)(ii) and (3), section 318(a) shall apply. For purposes of applying the preceding sentence to paragraph (3), the rules of section 304(c)(3)(B) shall apply.

(d) Stock rights

For purposes of this section—

(1) stock rights shall be treated as stock, and

(2) stock acquired through the exercise of stock rights shall be treated as stock distributed at the time of the distribution of the stock rights, to the extent of the fair market value of such rights at the time of the distribution.

(e) Convertible stock

For purposes of subsection (c)—

(1) if section 306 stock was issued with respect to common stock and later such section 306 stock is exchanged for common stock in the same corporation (whether or not such exchange is pursuant to a conversion privilege contained in the section 306 stock), then (except as provided in paragraph (2)) the common stock so received shall not be treated as section 306 stock; and

(2) common stock with respect to which there is a privilege of converting into stock other than common stock (or into property), whether or not the conversion privilege is contained in such stock, shall not be treated as common stock.

(f) Source of gain

The amount treated under subsection (a)(1)(A) as ordinary income shall, for purposes of part I of subchapter N (sec. 861 and following, relating to determination of sources of income), be treated as derived from the same source as would have been the source if money had been received from the corporation as a dividend at the time of the distribution of such stock. If under the

preceding sentence such amount is determined to be derived from sources within the United States, such amount shall be considered to be fixed or determinable annual or periodical gains, profits, and income within the meaning of section 871(a) or section 881(a), as the case may be.

(g) Change in terms and conditions of stock

If a substantial change is made in the terms and conditions of any stock, then, for purposes of this section—

(1) the fair market value of such stock shall be the fair market value at the time of the distribution or at the time of such change, whichever such value is higher;

(2) such stock's ratable share of the amount which would have been a dividend if money had been distributed in lieu of stock shall be determined as of the time of distribution or as of the time of such change, whichever such ratable share is higher; and

(3) subsection (c)(2) shall not apply unless the stock meets the requirements of such subsection both at the time of such distribution and at the time of such change.

(Aug. 16, 1954, ch. 736, 68A Stat. 90; Pub. L. 94-455, title XIX, §§ 1901(b)(3)(J), 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1793, 1834; Pub. L. 95-600, title VII, § 702(a)(1), (2), Nov. 6, 1978, 92 Stat. 2925; Pub. L. 96-223, title IV, § 401(a), Apr. 2, 1980, 94 Stat. 299; Pub. L. 97-248, title II, §§ 222(e)(1)(A), (2), 226(b), 227(a), Sept. 3, 1982, 96 Stat. 480, 492; Pub. L. 98-369, div. A, title VII, § 712(i)(2), (l)(5)(B), (6), July 18, 1984, 98 Stat. 948, 954; Pub. L. 101-508, title XI, § 11801(a)(18), Nov. 5, 1990, 104 Stat. 1388-521; Pub. L. 108-27, title III, § 302(e)(3), May 28, 2003, 117 Stat. 763.)

AMENDMENT OF SECTION

For termination of amendment by section 303 of Pub. L. 108-27, see Effective and Termination Dates of 2003 Amendment note below.

AMENDMENTS

2003—Subsec. (a)(1)(D). Pub. L. 108-27, §§ 302(e)(3), 303, temporarily added subpar. (D). See Effective and Termination Dates of 2003 Amendment note below.

1990—Subsec. (h). Pub. L. 101-508 struck out subsec. (h) which related to stock received in distributions and reorganizations to which 1939 Code applied.

1984—Subsec. (b)(1). Pub. L. 98-369, § 712(i)(2), substituted “interest, etc.” for “interest” in heading.

Subsec. (c)(3). Pub. L. 98-369, § 712(l)(6), incorporated existing second sentence in provision designated subpar. (A) and added subpar. (B).

Subsec. (c)(4). Pub. L. 98-369, § 712(l)(5)(B), substituted “the rules of section 304(c)(3)(B) shall apply” for “sections 318(a)(2)(C) and 318(a)(3)(C) shall be applied without regard to the 50 percent limitation contained therein”.

1982—Subsec. (b)(1)(B). Pub. L. 97-248, § 222(e)(2), substituted “paragraph (3) or (4) of section 302(b)” for “section 302(b)(3)”.

Subsec. (b)(2). Pub. L. 97-248, § 222(e)(1)(A), struck out “partial or” before “complete liquidation”.

Subsec. (c)(3). Pub. L. 97-248, § 226(b), added par. (3).

Subsec. (c)(4). Pub. L. 97-248, § 227(a), added par. (4).

1980—Subsecs. (a)(3), (b)(5). Pub. L. 96-223 repealed the amendments made by Pub. L. 95-600, § 702(a)(1), (2). See 1978 Amendment notes below.

1978—Subsec. (a)(3). Pub. L. 95-600, § 702(a)(1), added par. (3) which related to ordinary income from the sale or redemption of section 306 stock which was carryover basis property adjusted for 1976 value. See Repeals note below.

Subsec. (b)(5). Pub. L. 95-600, § 702(a)(2), added par. (5) which provided that subsec. (a) of this section shall not apply to the extent that section 303 applies to a distribution in redemption of section 306 stock. See Repeals note below.

1976—Subsec. (a)(1)(A), (B)(i). Pub. L. 94-455, § 1901(b)(3)(J), substituted “ordinary income” for “gain from the sale of property which is not a capital asset”.

Subsec. (b)(4). Pub. L. 94-455, § 1906(b)(13)(A), struck out “or his delegate” after “Secretary”.

Subsec. (f). Pub. L. 94-455, § 1901(b)(3)(J), substituted “ordinary income” for “gain from the sale of property which is not a capital asset”.

EFFECTIVE AND TERMINATION DATES OF 2003 AMENDMENT

Amendment by Pub. L. 108-27 applicable, except as otherwise provided, to taxable years beginning after Dec. 31, 2002, see section 302(f) of Pub. L. 108-27, set out as a note under section 1 of this title.

Amendment by Pub. L. 108-27 inapplicable to taxable years beginning after Dec. 31, 2010, and the Internal Revenue Code of 1986 to be applied and administered to such years as if such amendment had never been enacted, see section 303 of Pub. L. 108-27, as amended, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by Pub. L. 98-369 effective as if included in the provision of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, to which such amendment relates, see section 715 of Pub. L. 98-369, set out as a note under section 31 of this title.

EFFECTIVE DATE OF 1982 AMENDMENT

Amendment by section 222(e)(1)(A), (2) of Pub. L. 97-248 applicable to distributions after Aug. 31, 1982, with exceptions for certain partial liquidations, see section 222(f) of Pub. L. 97-248, set out as a note under section 302 of this title.

Amendment by section 226(b) of Pub. L. 97-248 applicable to transfers occurring after Aug. 31, 1982, except for certain transfers pursuant to an application to form a BHC filed with the Federal Reserve Board before Aug. 16, 1982, see section 226(c) of Pub. L. 97-248, set out as a note under section 304 of this title.

Section 227(c)(1) of Pub. L. 97-248 provided that: “The amendment made by subsection (a) [amending this section] shall apply to stock received after August 31, 1982, in taxable years ending after such date.”

EFFECTIVE DATE OF 1980 AMENDMENT AND REVIVAL OF PRIOR LAW

Amendment by Pub. L. 96-223 (repealing section 702(a)(1), (2) of Pub. L. 95-600 and the amendments made thereby, which had amended this section) applicable in respect of decedents dying after Dec. 31, 1976, and, except for certain elections, this title to be applied and administered as if those repealed provisions had not been enacted, see section 401(b), (e) of Pub. L. 96-223, set out as a note under section 1023 of this title.

EFFECTIVE DATE OF 1978 AMENDMENT

Section 702(a)(3) of Pub. L. 95-600 provided that the amendments made by section 702(a) of Pub. L. 95-600 would apply to the estates of decedents dying after Dec. 31, 1979, prior to repeal by Pub. L. 96-223, title IV, § 401(a), Apr. 2, 1980, 94 Stat. 299.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 1901(b)(3)(J) of Pub. L. 94-455 effective for taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

REPEALS

Pub. L. 95-600, § 702(a)(1), (2), cited as a credit to this section, and the amendments made thereby, were re-

pealed by Pub. L. 96-223, title IV, §401(a), Apr. 2, 1980, 94 Stat. 299, resulting in the text of this section reading as it read prior to enactment of section 702(a)(1), (2). See Effective Date of 1980 Amendment and Revival of Prior Law note above.

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101-508 be construed to affect treatment of certain transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

§ 307. Basis of stock and stock rights acquired in distributions

(a) General rule

If a shareholder in a corporation receives its stock or rights to acquire its stock (referred to in this subsection as “new stock”) in a distribution to which section 305(a) applies, then the basis of such new stock and of the stock with respect to which it is distributed (referred to in this section as “old stock”), respectively, shall, in the shareholder’s hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock. Such allocation shall be made under regulations prescribed by the Secretary.

(b) Exception for certain stock rights

(1) In general

If—

(A) a corporation distributes rights to acquire its stock to a shareholder in a distribution to which section 305(a) applies, and

(B) the fair market value of such rights at the time of the distribution is less than 15 percent of the fair market value of the old stock at such time,

then subsection (a) shall not apply and the basis of such rights shall be zero, unless the taxpayer elects under paragraph (2) of this subsection to determine the basis of the old stock and of the stock rights under the method of allocation provided in subsection (a).

(2) Election

The election referred to in paragraph (1) shall be made in the return filed within the time prescribed by law (including extensions thereof) for the taxable year in which such rights were received. Such election shall be made in such manner as the Secretary may by regulations prescribe, and shall be irrevocable when made.

(c) Cross reference

For basis of stock and stock rights distributed before June 22, 1954, see section 1052.

(Aug. 16, 1954, ch. 736, 68A Stat. 93; Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834.)

AMENDMENTS

1976—Subsecs. (a), (b)(2). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

SUBPART B—EFFECTS ON CORPORATION

Sec.	
311.	Taxability of corporation on distribution.
312.	Effect on earnings and profits.

§ 311. Taxability of corporation on distribution

(a) General rule

Except as provided in subsection (b), no gain or loss shall be recognized to a corporation on the distribution (not in complete liquidation) with respect to its stock of—

- (1) its stock (or rights to acquire its stock),
- or
- (2) property.

(b) Distributions of appreciated property

(1) In general

If—

(A) a corporation distributes property (other than an obligation of such corporation) to a shareholder in a distribution to which subpart A applies, and

(B) the fair market value of such property exceeds its adjusted basis (in the hands of the distributing corporation),

then gain shall be recognized to the distributing corporation as if such property were sold to the distributee at its fair market value.

(2) Treatment of liabilities

Rules similar to the rules of section 336(b) shall apply for purposes of this subsection.

(3) Special rule for certain distributions of partnership or trust interests

If the property distributed consists of an interest in a partnership or trust, the Secretary may by regulations provide that the amount of the gain recognized under paragraph (1) shall be computed without regard to any loss attributable to property contributed to the partnership or trust for the principal purpose of recognizing such loss on the distribution.

(Aug. 16, 1954, ch. 736, 68A Stat. 94; Pub. L. 91-172, title IX, §905(a), (b)(1), Dec. 30, 1969, 83 Stat. 713, 714; Pub. L. 94-452, §2(b), Oct. 2, 1976, 90 Stat. 1511; Pub. L. 94-455, title XIX, §1901(a)(42)(A), (B)(i), (C), Oct. 4, 1976, 90 Stat. 1771; Pub. L. 95-600, title VII, §703(j)(2)(A), (B), Nov. 6, 1978, 92 Stat. 2941; Pub. L. 96-471, §2(b)(1), Oct. 19, 1980, 94 Stat. 2253; Pub. L. 97-248, title II, §223(a), Sept. 3, 1982, 96 Stat. 483; Pub. L. 98-369, div. A, title I, §54(a), title VII, §712(j), July 18, 1984, 98 Stat. 568, 948; Pub. L. 99-514, title VI, §631(c), Oct. 22, 1986, 100 Stat. 2272; Pub. L. 100-647, title I, §§1006(e)(8)(B), (21)(B), 1018(d)(5)(E), Nov. 10, 1988, 102 Stat. 3401, 3403, 3580.)

AMENDMENTS

1988—Subsec. (a). Pub. L. 100-647, §1018(d)(5)(E), substituted “distribution (not in complete liquidation) with respect to its stock” for “distribution, with respect to its stock.”

Subsec. (b)(2). Pub. L. 100-647, §1006(e)(21)(B), substituted “liabilities” for “liabilities in excess of basis” in heading.

Subsec. (b)(3). Pub. L. 100-647, §1006(e)(8)(B), added par. (3).

1986—Pub. L. 99-514 amended section generally, substituting provisions relating to distributions of appreciated property for provisions relating to LIFO inventory, liability in excess of basis, and appreciated property used to redeem stock.

1984—Subsec. (d). Pub. L. 98-369, §54(a)(3), substituted “Distributions of appreciated property” for “Appreciated property used to redeem stock” in heading.

Subsec. (d)(1). Pub. L. 98-369, §54(a)(1), substituted “This subsection shall be applied after the applications