

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 exceeds 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**

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).

**(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) Special rule in case of foreign acquiring corporation**

In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, no earnings and profits shall be taken into account under paragraph (2)(A) (and subparagraph (A) shall not apply) if more than 50 percent of the dividends arising from such acquisition (determined without regard to this subparagraph) would neither—

(i) be subject to tax under this chapter for the taxable year in which the dividends arise, nor

(ii) be includible in the earnings and profits of a controlled foreign corporation (as defined in section 957 and without regard to section 953(c)).

**(C) 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; Pub. L. 111-226, title II, §215(a), Aug. 10, 2010, 124 Stat. 2399; Pub. L. 113-295, div. A, title II, §221(a)(48), Dec. 19, 2014, 128 Stat. 4045.)

#### 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

2014—Subsec. (b)(3)(D). Pub. L. 113-295, §221(a)(48)(B), struck out “and special rule” after “Definitions” in heading.

Subsec. (b)(3)(D)(iii). Pub. L. 113-295, §221(a)(48)(A), struck out cl. (iii). Text read as follows: “In the case of a BHC which is formed before 1985, clause (i) of subparagraph (C) shall not apply.”

2010—Subsec. (b)(5)(B), (C). Pub. L. 111-226 added subpar. (B) and redesignated former subpar. (B) as (C).

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 sub-

par. (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 2014 AMENDMENT

Amendment by Pub. L. 113-295 effective Dec. 19, 2014, subject to a savings provision, see section 221(b) of Pub. L. 113-295, set out as a note under section 1 of this title.

#### EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-226, title II, §215(b), Aug. 10, 2010, 124 Stat. 2400, provided that: “The amendments made by this section [amending this section] shall apply to acquisitions after the date of the enactment of this Act [Aug. 10, 2010].”

#### 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

Pub. L. 105-34, title I, §1013(d), Aug. 5, 1997, 111 Stat. 918, 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

Pub. L. 100-203, title X, §10223(d), Dec. 22, 1987, 101 Stat. 1330-412, 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

Pub. L. 98-369, div. A, title VII, §712(l)(7), July 18, 1984, 98 Stat. 954, 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

Pub. L. 97-248, title II, §226(c), Sept. 3, 1982, 96 Stat. 492, 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 distribu-

tion 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 paragraph (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.