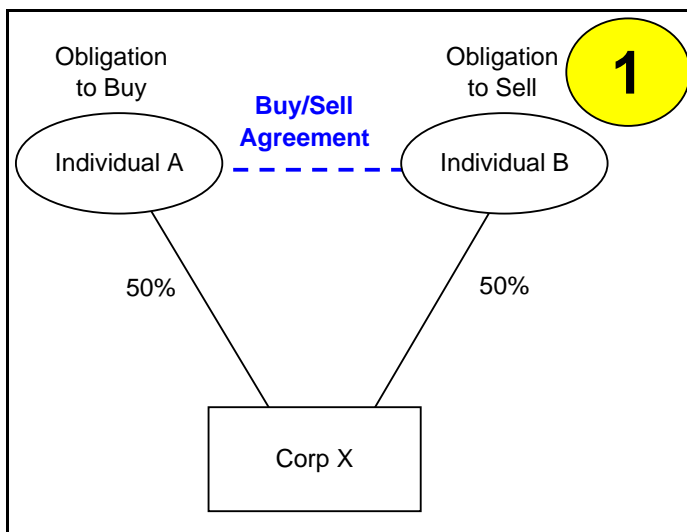


Revenue Ruling 69-608, Situation 1

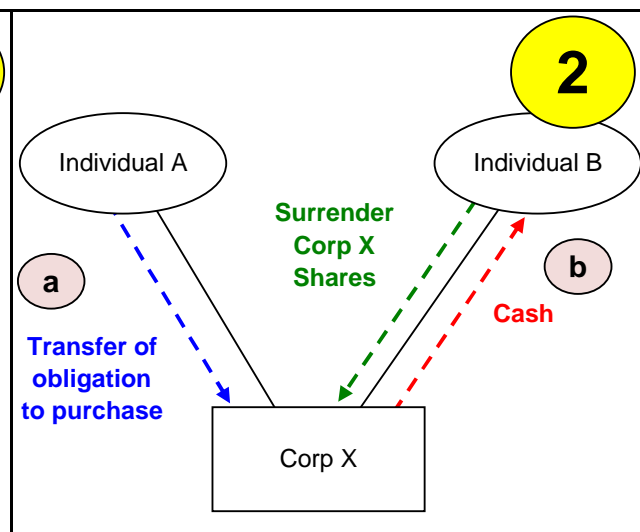
Constructive Dividend for Corporate Assumption of Shareholder Liability

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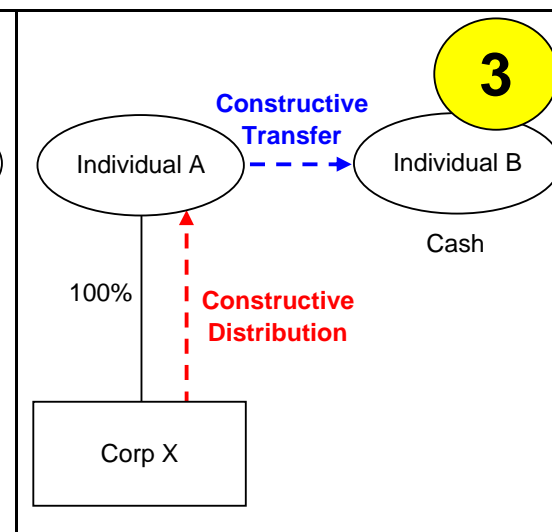
Initial Structure



Contract Assignment



Deemed Transfers



A and B are unrelated individuals who own all of the outstanding stock of corporation X. A and B enter into an agreement that provides in the event B leaves the employ of X, he will sell his X stock to A at a price fixed by the agreement. The agreement provides that within a specified number of days of B's offer to sell, A will purchase at the price fixed by the agreement all of the X stock owned by B. B terminates his employment and tenders the X stock to A. Instead of purchasing the stock himself in accordance with the terms of the agreement, A causes X to assume the contract and to redeem its stock held by B. In this case, A had a primary and unconditional obligation to perform his contract with B at the time the contract was assigned to X. Therefore, the redemption by X of its stock held by B will result in a constructive distribution to A. See *Sullivan v. U. S.*, 244 F. Supp. 605 (1965), affirmed, 363 F. 2d 724 (1966), certiorari denied, 387 U.S. 905 (1967), rehearing denied, 388 U.S. 924 (1967).

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