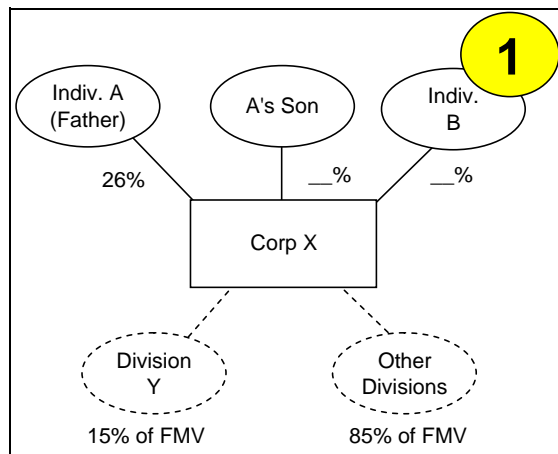
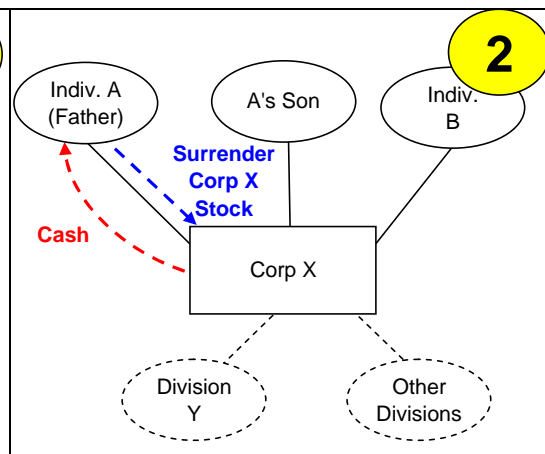


**Section 302(b)(3) Complete Termination:
Not a Successor Corporation**

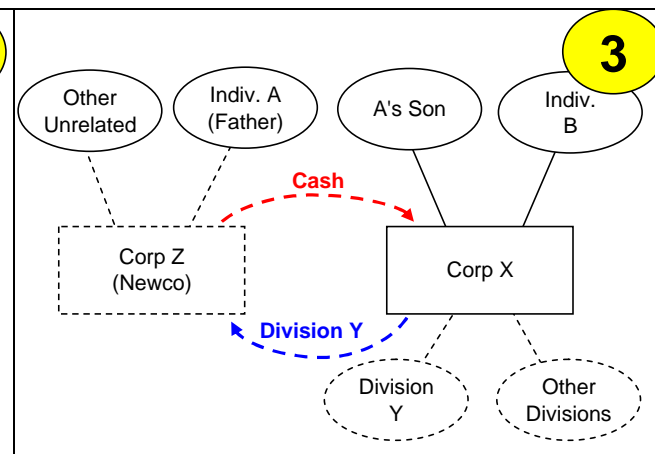
Initial Structure



Redemption (1973)

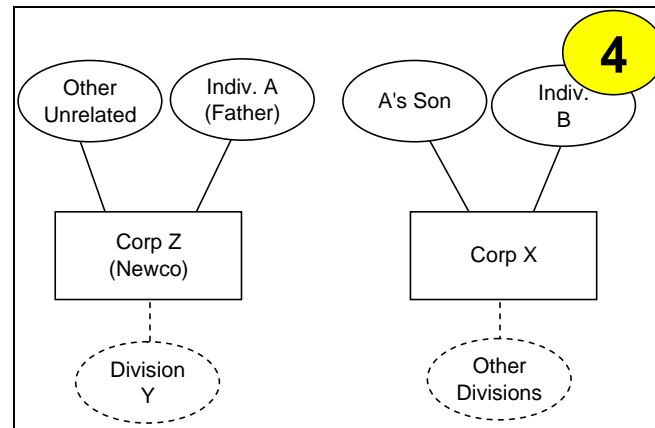


Sale of Division (1975)



In 1973, X corporation redeemed all of its stock directly owned by A who held a 26 percent interest in X and who was not active in the management of X. A, A's son, and B owned all the outstanding stock of X prior to the redemption. A filed the agreement required by section 302(c)(2)(A)(iii) for the purpose of waiving the constructive ownership of the X stock held by the son that was attributed to A under section 318(a)(1)(A)(ii). A's redemption thus qualified as a complete termination of interest under section 302(b)(3) and the gain realized was treated as received in exchange for the stock surrendered under section 302(a). At the time of A's redemption, X's business consisted of four separate manufacturing divisions, each one having been operated by X for more than 5 years. The assets of the Y division represented approximately 15 percent of the fair market value of X's total assets. Because of problems experienced over a period of years, Y division was put up for sale in 1975. A and other persons unrelated to A, A's son, or B decided to purchase the Y assets. Accordingly, they formed a corporation, Z, and became the owners of all of its stock. Z then acquired for cash the Y assets from X at their fair market value in a transaction that was taxable to X.

Ending Point



Section 302(c)(2)(A) provides that for purposes of section 302(b)(3), the constructive ownership of stock rules of section 318(a)(1) will not apply if certain requirements are met. A met these requirements with respect to Corp X. Reg. 1.302-4(c) provides that section 302(c)(2)(A) is to be applied with respect to an interest in a corporation that is a successor corporation to the corporation, the interest in which has been terminated. Whether a corporation is a "successor corporation" depends upon the facts of the particular case. The assets sold by X to Z were disposed of at their fair market value for valid business reasons. The remaining business of X, which was very substantial in relationship to the discontinued business, was continued by X and A did not regain an interest in this business by reason of Z's ownership of the Y assets. None of the shareholders of X are shareholders of Z. None of the tax attributes of the business discontinued by X are taken into account by Z for tax purposes. Accordingly, Z was not considered to be a "successor corporation" within the meaning of that term in Reg. 1.302-4(c).