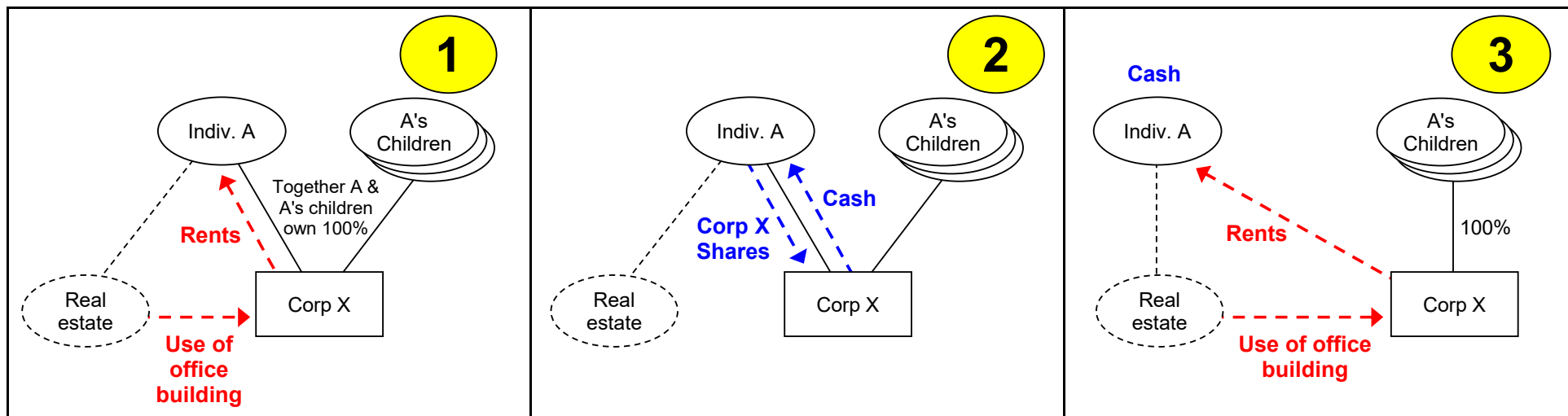


**Section 302(b)(3) Complete Termination:  
Landlord, No Prohibited Interest**

Initial Structure

Redemption

Ending Point



Individual A and A’s children own all of the stock of Corporation X. A plans to retire from X and all of the X stock owned by A will be redeemed by X for an amount of cash equal to the fair market value of the stock. A will no longer be employed by X in any capacity. A owns an office building which is rented to X. The rental payments are not subordinate to the claims of X’s general creditors.

Section 302(a) provides that a redemption of stock of a corporation will be treated as a distribution in part or full payment in exchange (i.e., as a sale) for the stock redeemed if section 302(b)(1), (2), (3), or (4) applies. Section 302(b)(3) provides that the redemption will be treated as a sale if it is in complete redemption of all of the stock of the corporation owned by the shareholder.

Section 302(c)(2)(A) provides that the section 318(a)(1) attribution rules will not apply to section 302(b)(3) if, among other things, immediately after the distribution the distributee has no interest in the corporation, other than an interest as a creditor. In this case, the only relationship between A and X after the stock redemption will be the rental agreement. The payments under the agreement will not be dependent upon X’s future earnings and will not be subordinate to the claims of X’s general creditors. This relationship will not provide A with an interest in X greater than that of a creditor and is not a prohibited interest within the meaning of section 302(c)(2)(A)(i).