**Chapter 7. Homework. Part 2. Stock Redemptions**

[§301, §302, §1001, §1(h), §11, §243] R Corporation, which has substantial earnings and profits, redeems 50 of Ted's shares (basis of $100 per share to Ted) for $60,000.
What is the effect of the redemption on Ted?

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| **a.** | $60,000 capital gain if it is treated as a dividend |  |
| **b.** | $60,000 dividend income if it is treated as a dividend |
| **c.** | $55,000 capital gain if it is treated as a dividend |
| **d.** | $55,000 dividend income if it is treated as a dividend |

[§301, §302, §1001, §1(h), §11, §243] **Big Corp.** is owned by Jan. Jan's stock basis is $250,000.
Her stock has a FMV of $1,000,000. **Big Corp.** has earnings and profits of $300,000.
Jan will receive a distribu­tion of $100,000 from **Big Corp.** in redemption 10% of her **Big Corp.** stock.
Jan will continue in her role as owner and CEO. What will be the tax effect of this redemption on Jan?

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| **a.** | $75,000 capital gain | **b.** | $75,000 dividend |  |
| **c.** | $100,000 dividend | **d.**  | $100,000 capital gain |

 **[**§301, §302, §1001, §1(h)] **Beaver Corp.** is owned by two unrelated individuals, Ward and June.
**Beaver Corporation** has earnings and profits of $300,000. Ward is not active in the business. He will retire from the business com­pletely and move to Oregon. Accordingly, Beaver Corporation will redeem all the stock owned by Ward. In return, Ward will receive a distribu­tion of $450,000. Ward's adjusted basis in the stock is $250,000. What will be the tax effect for Ward?

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| **a.** | $150,000 capital gain  | **b.** | $300,000 dividend  |  |  |
| **c.** | $400,000 dividend | **d.** | $200,000 capital gain | IRS-1995 |

 **[**§301, §302, §1001] A corporation is **owned 90% by Jones** and **10% by Smith**.
Jones owns 90 shares with a cost of $100 per share. Smith owns 10 shares with a cost of $100 per share.
The company redeems 50 shares from Jones at a redemption price of $300 per share. No stock is redeemed from Smith. This is not a redemption to pay death taxes, and it is not a partial liquidation. What is tax impact on Jones?

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| **a.** | Dividend income of $15,000 | **c.** | Dividend income of $10,000 |  |  |  |
| **b.** | Capital gain of $15,000 | **d.** | Capital gain of $10,000 | **e.** | Other |

[§301, §302, §1001] A corporation is **owned 70% by Jones** and **30% by Smith**.
Jones owns 70 shares with a cost of $100 per share. Smith owns 30 shares with a cost of $100 per share.
The company redeems 50 shares from Jones at a redemption price of $300 per share.
No stock is redeemed from Smith. This is not a redemption to pay death taxes, and it is not a partial liquidation. What is the tax impact on Jones?

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| **a.** | Dividend income of $15,000 | **c.** | Dividend income of $10,000 |  |  |  |
| **b.** | Capital gain of $15,000 | **d.** | Capital gain of $10,000 | **e.** | Other |

[§301, §303, §1001] Mr. Rich owned 50% (1,000 shares) of the Rich Corp. when he died. The 1,000 shares of Rich stock had a basis to him of $100,000, and had a FMV of $2,000,000. The corporation has earnings and profits of $700,000. His estate included other assets with a value of $3,000,000. There was no debt. The federal estate tax was $500,000. (no state death taxes.) Which following is true?

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| **a.** | If the corp. redeems stock worth $500,000, the estate will get exchange treatment on  |  |
|  |  the stock and there will be no taxable gain for the estate on the redemption. |
| **b.** | The estate can have the corporation redeem all 1,000 shares, and the estate will get exchange treatment on all of the stock that is redeemed.  |
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