§303 Stock Redemption

Prepared for: Sample

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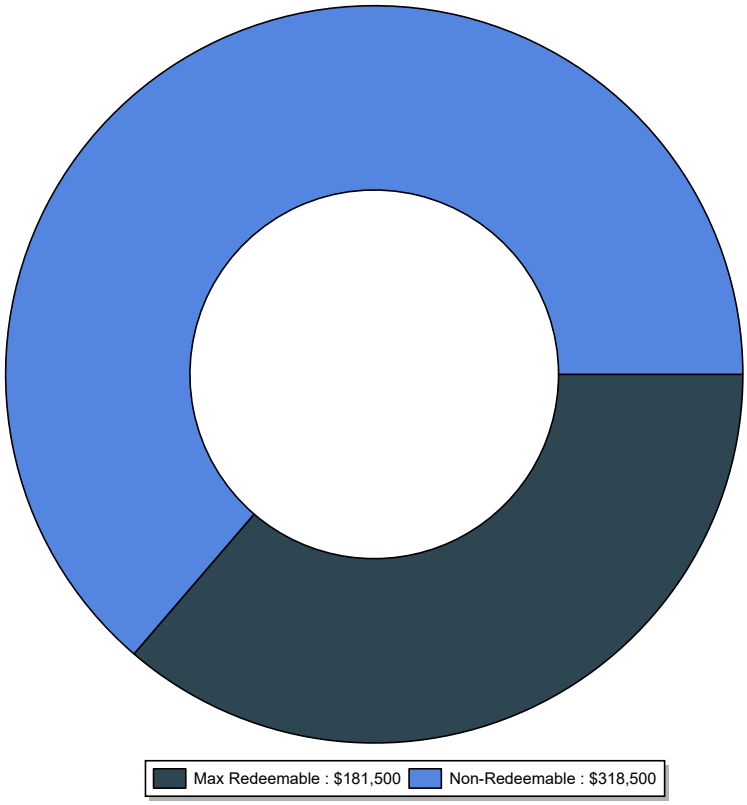
§303 Stock Redemption

Federal Estate Tax Value of Corporate Stock:	$500,000
Adjusted Gross Estate:	$1,000,000
Funeral and Administration Expenses:	$50,000
Federal Estate Tax:	$60,000
State Death Tax:	$10,000
Generation Skipping Transfer Tax:	$60,000
Interest Collected as Part of Above Taxes:	$1,500

Results

QUALIFIES for §303 Stock Redemption

35% of Adjusted Gross Estate:	$350,000
Maximum Allowable §303 Redemption:	$181,500



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§303 Stock Redemption

This calculation determines if a shareholder such as an estate is entitled to §303 protection. It also calculates the amount of stock that can be redeemed under §303.

IRC §303 allows a corporation to redeem (buy back) a portion of a decedent's stock with a distribution that will not be taxed as a dividend. §303 redemption can provide cash (or other property) from the corporation without income tax at the shareholder level.

§303 is useful when the shareholder's family wants to retain control of a close or family corporation after the shareholder's death. A shareholder's family may find it particularly useful when the corporation's stock is the estate's primary asset, and the family is unable to pay death taxes and other expenses without a forced liquidation of the business.

The following conditions must be met to entitle a shareholder to a §303:

- The stock to be redeemed is a part of the decedent's gross estate.
- The stock's value is more than 35% of the decedent's gross estate minus deductions allowed for funeral and administrative expenses, debts, taxes, and losses acquired during administration.
- The amount redeemed is no more than the total of (a) federal estate, state death, and generation skipping transfer taxes and the interest on those amounts, and (b) funeral and administration expenses (whether or not claimed as a deduction on the federal estate tax return).
- Expenses incurred by the decedent's death, administrative expenses, and generation skipping transfer taxes reduce the interest of the shareholder whose stock is being redeemed.

The tax implications of §303 redemption are:

- The amount paid to the estate or other seller will be treated as an exchange and not as a dividend. If the stock receives a step up in basis to its value at the shareholder's death, and the corporation pays exactly this price for it, no gain is recognized. If the corporation pays more than the new basis for the stock, the resulting gain is taxed as long-term capital gain with a maximum tax rate of 20%.
- Attribution rules do not apply to §303 redemptions.