

## 26 U.S. Code § 305. Distributions of stock and stock rights

U.S. Code   Notes   Authorities (CFR)

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**(a) GENERAL RULE**

Except as otherwise provided in this section, gross income does not include the amount of any distribution of the stock of a corporation made by such corporation to its shareholders with respect to its stock.

**(b) EXCEPTIONS** Subsection (a) shall not apply to a distribution by a corporation of its stock, and the distribution shall be treated as a distribution of property to which section 301 applies—

**(1) DISTRIBUTIONS IN LIEU OF MONEY** If the distribution is, at the election of any of the shareholders (whether exercised before or after the declaration thereof), payable either—

**(A)** in its stock, or

**(B)** in property.

**(2) DISPROPORTIONATE DISTRIBUTIONS** If the distribution (or a series of distributions of which such distribution is one) has the result of—

(A) the receipt of property by some shareholders, and

(B) an increase in the proportionate interests of other shareholders in the assets or earnings and profits of the corporation.

**(3) DISTRIBUTIONS OF COMMON AND PREFERRED STOCK** If the distribution (or a series of distributions of which such distribution is one) has the result of—

(A) the receipt of preferred stock by some common shareholders, and

(B) the receipt of common stock by other common shareholders.

**(4) DISTRIBUTIONS ON PREFERRED STOCK**

If the distribution is with respect to preferred stock, other than an increase in the conversion ratio of convertible preferred stock made solely to take account of a stock dividend or stock split with respect to the stock into which such convertible stock is convertible.

**(5) DISTRIBUTIONS OF CONVERTIBLE PREFERRED STOCK**

If the distribution is of convertible preferred stock, unless it is established to the satisfaction of the Secretary that such distribution will not have the result described in paragraph (2).

**(c) CERTAIN TRANSACTIONS TREATED AS DISTRIBUTIONS** For purposes of this section and section 301, the Secretary shall prescribe regulations under which a change in conversion ratio, a change in redemption price, a difference between redemption price and issue price, a redemption which is treated as a distribution to which section 301 applies, or any transaction (including a recapitalization) having a similar effect on the interest of any shareholder shall be treated as a distribution with respect to any shareholder whose proportionate interest in the earnings and profits or assets of the corporation is increased by such change, difference, redemption, or similar transaction. Regulations prescribed under the preceding sentence shall provide that—

prescribed under the preceding sentence shall provide that

**(1)** where the issuer of stock is required to redeem the stock at a specified time or the holder of stock has the option to require the issuer to redeem the stock, a redemption premium resulting

from such requirement or option shall be treated as reasonable only if the amount of such premium does not exceed the amount determined under the principles of section 1273(a)(3),

**(2)** a redemption premium shall not fail to be treated as a distribution (or series of distributions) merely because the stock is callable, and

**(3)** in any case in which a redemption premium is treated as a distribution (or series of distributions), such premium shall be taken into account under principles similar to the principles of section 1272(a).

#### **(d) DEFINITIONS**

##### **(1) RIGHTS TO ACQUIRE STOCK**

For purposes of this section, the term "stock" includes rights to acquire such stock.

##### **(2) SHAREHOLDERS**

For purposes of subsections (b) and (c), the term "shareholder" includes a holder of rights or of convertible securities.

#### **(e) TREATMENT OF PURCHASER OF STRIPPED PREFERRED STOCK**

**(1) IN GENERAL** If any person purchases after April 30, 1993, any stripped preferred stock, then such person, while holding such stock, shall include in gross income amounts equal to the amounts which would have been so includible if such stripped preferred stock were a bond issued on the purchase date and having original issue discount equal to the excess, if any, of—

**(A)** the redemption price for such stock, over

**(B)** the price at which such person purchased such stock.

The preceding sentence shall also apply in the case of any person whose basis in such stock is determined by reference to the basis in the hands of such purchaser.

**(2) BASIS ADJUSTMENTS**

Appropriate adjustments to basis shall be made for amounts includible in gross income under paragraph (1).

**(3) TAX TREATMENT OF PERSON STRIPPING STOCK**

If any person strips the rights to 1 or more dividends from any stock described in paragraph (5)(B) and after April 30, 1993, disposes of such dividend rights, for purposes of paragraph (1), such person shall be treated as having purchased the stripped preferred stock on the date of such disposition for a purchase price equal to such person's adjusted basis in such stripped preferred stock.

**(4) AMOUNTS TREATED AS ORDINARY INCOME**

Any amount included in gross income under paragraph (1) shall be treated as ordinary income.

**(5) STRIPPED PREFERRED STOCK** For purposes of this subsection—

**(A) In general**

The term “stripped preferred stock” means any stock described in subparagraph (B) if there has been a separation in ownership between such stock and any dividend on such stock which has not become payable.

**(B) Description of stock** Stock is described in this subsection if such stock—

- (i) is limited and preferred as to dividends and does not participate in corporate growth to any significant extent, and
- (ii) has a fixed redemption price.

**(6) PURCHASE** For purposes of this subsection, the term "purchase" means—

**(A)** any acquisition of stock, where

**(B)** the basis of such stock is not determined in whole or in part by the reference to the adjusted basis of such stock in the hands of the person from whom acquired.

**(7) CROSS REFERENCE**

For treatment of stripped interests in certain accounts or entities holding preferred stock, see section 1286(e).

**(f) CROSS REFERENCES** For special rules—

**(1)** Relating to the receipt of stock and stock rights in corporate organizations and reorganizations, see part III (sec. 351 and following).

**(2)** In the case of a distribution which results in a gift, see section 2501 and following.

**(3)** In the case of a distribution which has the effect of the payment of compensation, see section 61(a)(1).

(Aug. 16, 1954, ch. 736, 68A Stat. 90; Pub. L. 91-172, title IV, § 421(a), Dec. 30, 1969, 83 Stat. 614; Pub. L. 94-455, title XIX, § 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 97-34, title III, § 321(a), (b), Aug. 13, 1981, 95 Stat. 287, 289; Pub. L. 97-448, title I, § 103(f), Jan. 12, 1983, 96 Stat. 2378; Pub. L. 101-508, title XI, §§ 11322(a), 11801(a)(17), (c)(7), Nov. 5, 1990, 104 Stat. 1388-463, 1388-521, 1388-524; Pub. L. 103-66, title XIII, § 13206(c)(1), Aug. 10, 1993, 107 Stat. 465; Pub. L. 108-357, title VIII, § 831(b), Oct. 22, 2004, 118 Stat. 1587; Pub. L. 115-141, div. U, title IV, § 401(c)(2) (D), Mar. 23, 2018, 132 Stat. 1206.)

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