

[Jen Wickham](#) - Tue, 3/10/2015 - 11:27

This revenue ruling establishes that the IRS will treat capital gain realized after the donation of corporate stock to charity as income to the donor only if the charity is legally bound or can be compelled by the corporation to sell the shares.

IRS Headnote Redemption; charitable contribution followed by a prearranged redemption. A taxpayer with voting control of a corporation and an exempt private foundation who donates shares of the corporation's stock to the foundation and, pursuant to a prearranged plan, causes the corporation to redeem the shares from the foundation does not realize income as a result of the redemption. The Service will treat the proceeds as income to the donor under facts similar to those in the Palmer decision only if the donee is legally bound, or can be compelled by the corporation, to surrender the shares for redemption. Full Text Rev. Rul. 78-197 In *Palmer v. Commissioner*, 62 T.C. 684 (1974), aff'd on another issue, 523 F.2d 1308 (8th Cir. 1975), the United States Tax Court held that the Internal Revenue Service incorrectly treated a gift of stock to an organization exempt from income taxation pursuant to section 511(c)(3) of the Internal Revenue Code of 1954, followed by a prearranged redemption of the stock, as a redemption of the stock from the donor followed by a gift of the redemption proceeds to the donee. The Service will follow Palmer on this issue, acq., page 6, this Bulletin. In Palmer, the taxpayer had voting control of both a corporation and a tax-exempt private foundation. Pursuant to a single plan, the taxpayer donated shares of the corporation's stock to the foundation and then caused the corporation to redeem the stock from the foundation. It was the position of the Service that the substance of the transaction was a redemption of the stock from the taxpayer, taxable under section 301 of the Code, followed by a gift of the redemption proceeds by the taxpayer to the foundation. The United States Tax Court rejected this argument and treated the transaction according to its form because the foundation was not a sham, the transfer of stock to the foundation was a valid gift, and the foundation was not bound to go through with the redemption at the time it received title to the shares. Also see, *Grove v. Commissioner*, 490 F.2d 241 (2nd Cir. 1973); *Behrend v. United States*, No. 72-1153, 72-1156 (4th Cir. 1972); and *Carrington v. Commissioner*, 467 F.2d 704 (5th Cir. 1973). The Service will treat the proceeds of a redemption of stock under facts similar to those in Palmer as income to the donor only if the donee is legally bound, or can be compelled by the corporation, to surrender the shares for redemption.

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