**301, 302, and 305 Problem**

Unrelated individuals Alston and Bragan own 50 percent each (30 shares apiece) of Dodge Corporation. Each shareholder has a $1,200 total basis in his stock. Dodge is worth $6,000 (each share worth $100) and has sufficient E&P to cover any of the following proposed distributions. The parties would like to shift two-thirds control of the corporation to Bragan, with Alston retaining the remaining one-third interest. Determine the tax consequences of the following alternate methods of accomplishing this goal. Which produces the most favorable tax consequences? The least favorable?

(a)   Dodge distributes $1,500 cash to Alston in redemption of 15 of his shares. Following the redemption, Alston still owns 15 shares of Dodge, which represent a one-third interest in the corporation, and Bragan still owns the other 30 shares, which represent the remaining two-thirds interest.

(b)   Dodge distributes a total of $1,500 cash pro rata to Alston and Bragan, $750 to each. Following the distribution, Bragan uses his $750 to purchase 10 of Alston’s shares, worth $75 per share following the distribution. After the purchase, Alston owns 20 shares of Dodge, representing a one-third interest, and Bragan owns the other 40 shares, representing a two-thirds interest.

(c)   Alston sells 10 of his shares to Bragan for $1,000. Following the stock sale, Dodge distributes a total of $1,500 cash pro rata to the shareholders: two-thirds, or $1,000, to Bragan (which exactly reimburses him for the purchase price for the stock), and one-third, or $500, to Alston. Following the sale and distribution, Alston and Bragan have one-third and two-thirds interests in Dodge, respectively.

(d)   Dodge distributes $1,500 cash to Alston and an equal amount, in the form of 30 additional shares, to Bragan. (After both distributions are taken into account, the 30 additional shares would be worth $1,500, one-third of $4,500.) After the distributions, Alston owns 30 shares (a one-third interest) and Bragan owns 60 shares (a two-thirds interest).