Dividend Equivalency in Stock Sales to Related Corporations

By William C. Brown

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This article examines the section 304 rules regarding sales of stock to related corporations and compares the application of the attribution of ownership rules to parent-subsidiary stock sales with their application to brother-sister stock sales. Because those rules apply differently to parent-subsidiary stock sales, the author argues for a more flexible application of section 302(b)(1) dividend equivalency rules and possible statutory changes to section 304 to eliminate or modify circular attribution of ownership in a parent-subsidiary stock sale.

Introduction

Congress has understandably been concerned about devices to bail out corporate earnings without dividend tax treatment. Several provisions have been enacted to prevent those devices, such as the treatment of some corporate stock redemptions as dividends under section 302, the ordinary income or dividend treatment assigned to some sales or redemptions of section 306 stock, and the dividend treatment of boot in a corporate reorganization under section 356(a)(2). Perhaps the most enigmatic and least understood of these provisions is section 304, which treats a sale of stock to a related corporation as a constructive redemption, which may thereby be treated as a dividend under the section 302 stock redemption rules. These rules apply to both sales of brother-sister stock[1] and sales of parent stock to a subsidiary.[2]

Section 304

Section 304 applies to a brother-sister sale of stock if one or more persons are in control of each of two corporations and, in return for property, one of the corporations acquires stock in the other corporation from the person or persons so in control. It applies in the parent-subsidiary situation if the subsidiary[3] acquires parent stock from a parent shareholder in return for property and the parent corporation controls the acquiring corporation. If the circumstances meet the control criteria of both brother-sister corporations and parent-subsidiary corporations, the parent-subsidiary rules of section 304 govern.[4]

As noted, for section 304 to apply, either one or more persons must control each of two corporations, or one corporation must control the corporation acquiring the stock. Control is defined in section 304(c) as ownership of at least 50 percent of the total combined voting power of all classes of

[1]Section 304(a)(1).

[2]Section 304(a)(2).

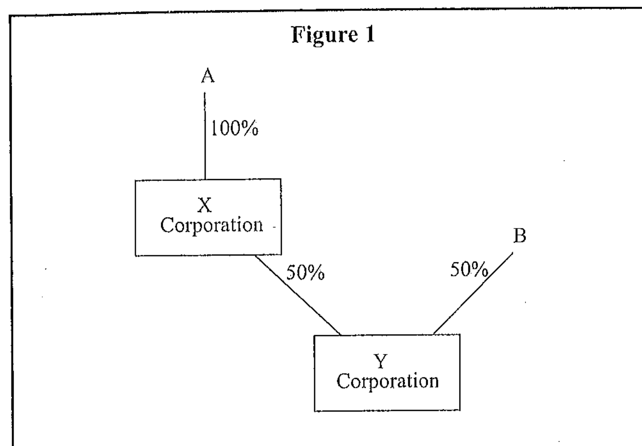
[3]Note that a subsidiary for this purpose is based on the parent having only 50 percent or more control of the corporation, and it does not require a higher degree of ownership or control as would be the case with a subsidiary as defined in section 1503(f)(3)(C) of the consolidated return provisions.

[4]In every case in which parent stock is sold to a subsidiary by a person in control of the parent, that person is also deemed to be in control of the subsidiary if the parent owns 50 percent or more of the subsidiary stock under the section 318 attribution rules. As a result, Congress determined that the parent-subsidiary rules should take precedence in this situation. It added the parenthetical "(unless paragraph (2) applies)" to the section 304(a)(1) provision dealing with brother-sister stock sales. Note, however, that section 304(a)(2) by its terms applies to a sale of parent company stock even by a person who is not in control of the parent before the sale. However, if the seller of the stock is not in control of the parent before the sale, the sale will in many cases qualify for exchange treatment under section 302(b)(2) since the seller will own less than 50 percent of the parent company following the sale.

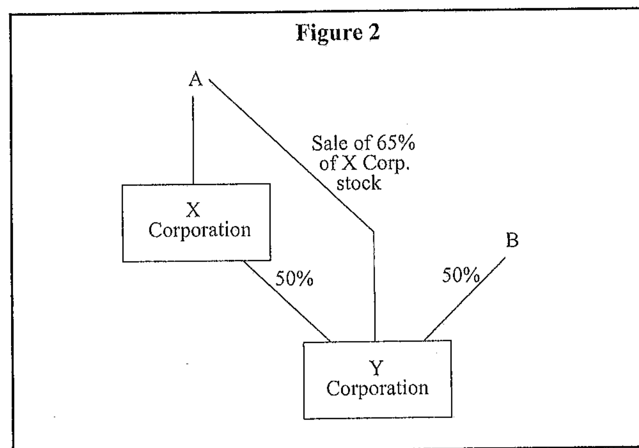
voting stock, or at least 50 percent of the total value of shares of all classes of stock. In determining control, the attribution rules of section 318(a) apply. However, two special modifications to the section 318 attribution rules are used under section 304 for the attribution of stock to or from a corporation. First, under section 304(c)(3)(B), for purposes of determining control, stock is attributed to or from a corporation if the person actually or constructively owns 5 percent of more of the corporation rather than 50 percent or more. Under this provision, unlike the general owner-to-corporation attribution rules of section 318(a)(3)(C), only a proportionate amount of the stock is attributed to the corporation if the person owns 5 percent or more but less than 50 percent of the corporation.[5] Second, if section 304 applies and the sale is treated as a constructive redemption, in determining whether the sale receives exchange treatment under section 302 or is treated as a dividend, the attribution rules of section 318 apply without regard to the 50 percent limitation on attribution for corporate entities.[6] As will be seen below, those modifications to the corporate attribution rules complicate the analysis under section 304.

Fact Pattern — Sale of Parent Stock to Sub

Strict application of these rules can have some surprising results. Consider this scenario: A owns 100 percent of X Corp., a successful business started by A many years ago. A employs B, who starts an offshoot business enterprise for X. For liability protection and because B is principally working in the new business enterprise, A establishes Y Corp. to conduct the new business. A provides initial start-up capital with a section 351 transfer of property by X to Y in exchange for stock. Also, B acquires 50 percent of the Y stock as an inducement for him to build Y into a profitable enterprise. (See Figure 1.)



Over time, Y becomes successful, and A decides he wants to retire, but he also wants to maintain a partial ownership interest in both X and Y because he thinks future growth will yield him significant gains in his retirement. A recognizes that B has been successful in building Y's business, and he believes B would likely effectively manage both X and Y for future growth. A therefore approaches B about purchasing part of his X stock. However, B has no funds to make the stock purchase and proposes that Y purchase the X stock instead. A agrees and sells 65 percent of his X stock to Y for cash and/or an installment note. (See Figure 2.)



Following the sale, A owns 35 percent of X, which owns 50 percent of Y, and Y owns 65 percent of X. (See Figure 3.)

A, of course, expects to obtain exchange treatment on the sale of his X stock because he sold it to a person (Y) in which he has no direct ownership or control and he owns only a minority interest in X following the sale.[7]

[5]Under section 318(a)(3)(C), attribution to a corporation from an owner is generally of all the stock owned by the shareholder rather than only a proportionate share. Under the special provision, this rule is changed to proportionate attribution if (and only if) 5 percent or more but less than 50 percent is owned by the person from whom stock ownership is attributed. If the person owns 50 percent or more of the stock, the general rule of section 318(a)(3)(C) applies and all the stock owned by the person is attributed to the corporation.

[6]Section 304(b)(1).

[7]This situation, while fascinating from a theoretical and tax policy perspective, also has practical implications. First, the

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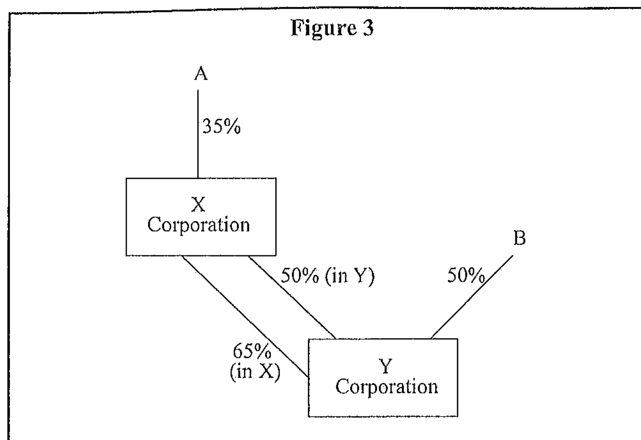
Figure 3



Application of Section 304

Unknown to A, section 304 rears its ugly head. Section 304(a)(2) applies because A, a shareholder in a parent corporation (X), is selling parent stock to a subsidiary, and X is in control of Y under section 304 by virtue of its 50 percent ownership of stock. Once section 304 applies, the question becomes whether the transaction receives exchange treatment under section 302. In this situation, A actually owns 100 percent of X before the transaction but only 35 percent after the transaction, so at first blush it seems likely the redemption would qualify for exchange treatment as a substantially disproportionate redemption under section 302(b)(2).

Application of Section 302

However, under section 304 the ownership attribution rules of section 318(a) apply for purposes of applying the section 302 redemption rules. Moreover, under section 304(b)(1) these rules apply for corporate attribution without regard to the 50 percent limitation in section 318. Although A owns no Y stock directly and hence has no X stock attributed to him through direct ownership of Y, X's 50 percent stock ownership of Y causes part of Y's stock ownership in X to be attributed to A with respect to A's 35 percent stock ownership in X. The rules accomplish this by attributing 50 percent of Y's 65 percent stock ownership in X to X under section 318(a)(2)(C), thus resulting in attribution of 32.5 percent (50 percent x 65 percent = 32.5 percent). A portion of this attributed stock ownership is then reattributed from X to A under section 318(a)(2)(C) even though A owns less than 50 percent of X following the sale. This is because the special rule of section 304(b)(1) eliminates the requirement of ownership of 50 percent of the corporate stock for entity-to-owner attribution under 318.[8]

This determination of attributed ownership is further complicated by section 318(a)(5)(A), which provides that stock considered as owned by a person by reason of the attribution rules of section 318(a)(1), (2), (3), and (4) is considered actually owned by that person. As a result of this rule, the ownership attributed to A as described above increases the portion of the X stock ownership attributed from Y to X, which is again reattributed to A. This causes a circular attribution of the X stock ownership originally attributed from Y. Through iteration, this results in 16.85 percent of X stock being attributed to A,[9] and A is thus deemed to own 51.85 percent of X following the sale.[10]

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transaction in the example, while not a common way of exiting from business, is certainly conceivable in light of the difficulty in financing the purchase of C corporation stock outside the corporate solution. If there is a related corporation involved, the remaining owner will likely want to use the resources of that related corporation rather than his after-tax personal funds to effect the stock purchase, and a stock purchase by that corporation would be a reasonable way to use those resources. Second, if this situation arises, the stock seller (and probably the seller's advisers) will likely be oblivious to the potential implications of this action because of the complexity of section 304 and the odd way in which the corporate stock attribution rules are applied within section 304.

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[8]Note also that this reattribution is not prohibited by section 318(a)(5)(C) since this is a 318(a)(2)(C) attribution that follows another 318(a)(2)(C) attribution instead of a prohibited 318(a)(3)(C) attribution followed by 318(a)(2)(C) attribution.

[9]The circular attribution arises as follows: 50 percent of Y's 65 percent ownership of X stock is first attributed to X. Thus, 32.5 percent of X stock is initially attributed to X. Next, 35 percent of this attributed stock is attributed to A, resulting in 11.375 percent of this stock being preliminarily attributed to A (32.5 percent x 35 percent = 11.375 percent). Thus, under section 318(a)(5)(A), A is deemed to own actually 46.375 percent of the X stock. Since in the first attribution only 35 percent of the stock attributed from Y was attributed to A, the attribution of those shares must now be recalculated using the 46.375 percent ownership of A. This recalculation in turn increases the amount of stock deemed owned by A, thus necessitating another recalculation.

While this recalculated attribution can be solved through iteration, a simpler way to solve this problem is to compare A's direct stock ownership in X (35 percent) with the sum of A's stock ownership in X and the portion of Y's stock ownership that is not attributed to X in the first step of this attribution analysis (65 percent x 50 percent Y stock owned by B = 32.5 percent), and by multiplying this result by the percentage of X stock owned by Y that is attributed in the first step of this analysis to X (32.5 percent). To simplify: 35 percent/(35 percent + 32.5 percent) x 32.5 percent = 16.8519 percent.

[10]Thus, A's attributed ownership is the sum of his actual ownership (35 percent) and his attributed ownership through X (16.8519 percent), or 51.8519 percent. In fact, if X has exactly 50 percent ownership in Y, the math works out to result in A having through attribution exactly 50 percent of X if he reduces his X stock ownership to exactly one-third, and greater than 50 percent if he reduces his X stock ownership to an amount greater than one-third.

Because A is deemed to own more than 50 percent of X following the sale, substantially disproportionate redemption treatment under section 302(b)(2) is unavailable. Further, because A continues to own X stock following the sale, the constructive redemption also does not constitute a complete termination of interest redemption that would qualify for exchange treatment under section 302(b)(3).

Dividend Equivalency

Because none of the objective exceptions to dividend treatment under section 302 apply, the question then becomes whether A can qualify for exchange treatment under section 302(b)(1) on the basis that this constructive redemption is not essentially equivalent to a dividend. In *United States v. Davis*,[11] the Supreme Court addressed the application of section 302(b)(1) and established several principles in determining dividend equivalency under section 302(b)(1). First, the Court held that section 318 attribution rules are to be applied. Second, the Court held that the presence of a bona fide business purpose for the transaction was irrelevant in determining whether the redemption was essentially equivalent to a dividend. Third, the Court said that the redemption must result in a "meaningful" reduction in the stockholder's proportionate interest in the corporation to avoid dividend equivalency.[12]

While the transaction described above arguably does have a bona fide business purpose (to provide for an effective owner/manager of X and Y — B), under *Davis* that business purpose is ignored and does not cause the transaction to be regarded as not equivalent to a dividend. And since section 318 attribution applies under *Davis* and A is deemed to own more than 51 percent of the stock following the sale, it initially seems unlikely that no dividend equivalency would be found after considering attribution. Query, then, whether a reduction in actual ownership from 100 percent to 35 percent when ownership including constructive ownership reduces only from 100 percent to 51 percent is a meaningful reduction in ownership. If so, the result is exchange treatment when the difference between actual and constructive ownership following the sale arises solely because of the application of the corporate attribution rules as required under section 302(b)(1).

In revenue rulings on dividend equivalency in brother-sister section 304 transactions, the IRS has uniformly ruled against exchange treatment if the transaction did not meet the objective criteria of section 302(b)(2) or (b)(3).[13] From reading these rulings, one could easily conclude that the IRS will never allow exchange treatment for a stock sale to a related corporation if the requirements of section 302(b)(2) or (b)(3) are unmet. Also, the Tax Court has typically held that brother-sister stock purchases are essentially equivalent to a dividend and hence are not treated as exchanges.[14] However, none of the authorities cited involved the sale of parent stock to a subsidiary as in our example, although there is good reason to suspect that the conclusion would be the same in a parent-subsidiary situation as in a brother-sister stock sale.

In evaluating whether the redemption results in a meaningful reduction of interest so as to qualify for exchange treatment, the cases and rulings under section 302(b)(1) generally focus on changes in the attributes of voting power, control over corporate policy, and interest in the corporation's earnings and assets. Those authorities place great weight on whether a shareholder who has a majority ownership position in the corporation before the redemption continues to have a majority ownership after the redemption, with that ownership calculated in accordance with *Davis* using the section 318 ownership attribution rules. In nearly every case and in every revenue ruling, a shareholder who owns more than 50 percent of the stock directly or through attribution after the redemption has been denied exchange treatment on the redemption.[15]

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[11]397 U.S. 301 (1970).

[12]The Court in *Davis* also stated:

> After application of the stock ownership attribution rules, this case viewed most simply involves a sole stockholder who causes part of his shares to be redeemed by the corporation. We conclude that such a redemption is always "essentially equivalent to a dividend" within the meaning of that phrase in section 302(b)(1).

397 U.S. at 307.

In the example, although A is the sole shareholder of X before the sale, he is not its sole shareholder following the sale, even when applying section 318 attribution rules. In contrast, the taxpayer in *Davis* was the sole shareholder both before and after the redemption after considering attribution. Thus, this statement by the Court alone would not result in section 302(b)(1) being inapplicable in our example. The redemption in our situation is only a constructive redemption, not an actual redemption, and the resulting attributed ownership after the sale reveals that this sale has significant attributes of a sale rather than a redemption when viewed in this context.

[13]Rev. Rul. 70-496, 1974-2 C.B. 74; Rev. Rul. 77-427, 1977-2 C.B. 100; Rev. Rul. 77-218, 1977-1 C.B. 81; Rev. Rul. 75-174, 1975-1 C.B. 252; Rev. Rul. 73-2, 1973-1 C.B. 171; Rev. Rul. 95-71, 1995-2 C.B. 323; Rev. Rul. 72-569, 1972-2 C.B. 203.

[14]*Coates Trust v. Commissioner*, 55 T.C. 501 (1970), *aff'd*, 480 F.2d 468 (9th Cir. 1973).

[15]*But see Wright v. United States*, 482 F.2d 600 (8th Cir. 1973), in which the Eighth Circuit held that boot in the form of a promissory note distributed to the taxpayer in connection with a merger did not have the effect of a dividend distribution

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There is, however, one revenue ruling that appears to offer some glimmer of hope to a taxpayer seeking exchange treatment in this situation. In Rev. Rul. 75-502,[16] the IRS ruled that the redemption of stock held by an estate that resulted in attributed stock ownership being reduced from 57 percent to 50 percent was, under the facts presented, a redemption qualifying for exchange treatment under section 302(b)(1). In so holding, the IRS appeared to attach great significance to the fact that there was only one other shareholder who owned 50 percent of the stock in the corporation following the redemption. The taxpayer and the other shareholder effectively held veto power over each other after the redemption because of their respective 50 percent ownership interests. However, it seems likely the IRS would not have found exchange treatment in this ruling if the unrelated ownership interest in the corporation had been split among multiple shareholders.

A's attributed ownership of more than 51 percent of the X stock following the sale would appear to make Rev. Rul. 75-502 inapposite. However, a closer examination of A's ownership of X following the sale may lead to a different conclusion.

Note that A's interest in the corporations' equity and in voting rights significantly diminished after the sale. After the sale, A owns 35 percent of X's equity and hence has a 35 percent interest in any dividends paid by X and a 35 percent interest in any liquidation proceeds, whereas he had a 100 percent interest therein before the sale.[17] Although A has no direct ownership in Y, he effectively has an indirect 17.5 percent equity interest in Y because X owns 50 percent of Y (X's 50 percent ownership multiplied by A's 35 percent ownership in X), as compared with a 50 percent indirect ownership in Y before the sale.

Although A has only 35 percent of the voting rights in X, the cross-ownership of X and Y makes voting control of X uncertain. Even though Y has the majority ownership interest in X, X and B, by virtue of their equal ownership in Y, must agree on how the Y stock is voted for the election of X Corp. directors. These X Corp. directors in turn determine the voting of the Y stock, and along with B, they determine the directors who are elected in Y Corp. who direct the voting of the X stock owned by Y. Clearly this ownership structure has the potential for deadlocking both X and Y.[18] However, in the circumstances presented in the example, it seems likely that A would cede control of both corporations to B since B has the larger direct and effective equity interest in both X and Y. Even if A does not cede control of both corporations to B, it is still apparent that A would be unable to control the voting in either corporation following the sale.

Because A's voting position at best gives him only veto power over the corporate decision-making, the rationale for not finding dividend equivalence in Rev. Rul. 75-502 arguably applies in this situation as well. Not only is A's voting interest not a majority interest after the sale, but a single other party has at least veto power over corporate action after the sale. However, if the ownership by unrelated parties in the example was fractionalized rather than unified in one owner, then it is unlikely that the IRS would apply the rationale of Rev. Rul. 75-502.

Sale of Brother-Sister Stock

Although the example involves a parent-subsidiary sale, it is instructive to recast the facts to determine what would result if the transaction were instead a brother-sister sale. To equate a brother-sister situation to the parent-subsidiary approach, we would begin with A owning 100 percent of X and 50 percent of Y — which reflects the same interest in the equity of Y as A's indirect interest in the parent-subsidiary example. (See Figure 4.)

A similar transaction would then be a sale of 65 percent of A's X stock holdings to Y and a contemporaneous redemption of part of A's Y stock to reduce his stock ownership in Y from 50 percent to 17.5 percent. (See Figure 5.)

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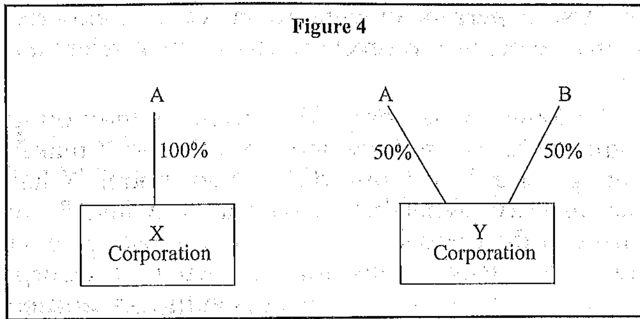
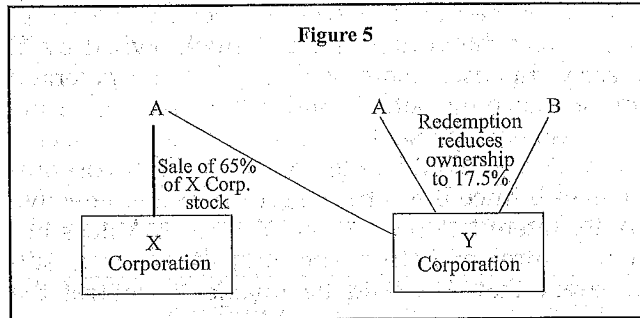
under section 356(a)(2) and thus did not qualify for exchange treatment; the taxpayer's stock ownership in the merged companies was reduced from 85 percent to 61.7 percent by virtue of the distribution of the promissory note. *See also Rickey v. United States*, 427 F. Supp. 484 (W.D. La. 1976), *aff'd on other grounds*, 592 F.2d 1251 (5th Cir. 1979), in which a reduction in ownership from 72 percent to 58 percent was afforded exchange treatment; and *Patterson Trust v. United States*, 729 F.2d 1089 (6th Cir. 1984), in which a reduction in ownership from 80 percent to 62.8 percent qualified for exchange treatment.

[16]1975-2 C.B. 111.

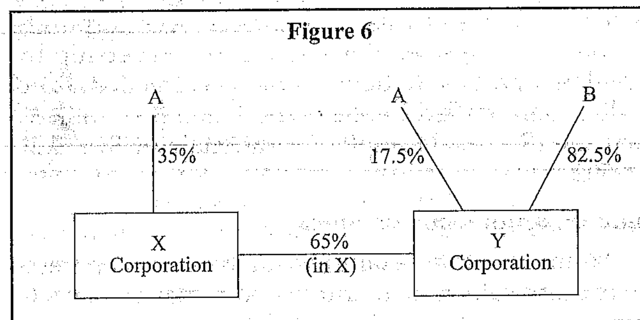
[17]Note that in the equivalent brother-sister stock sale discussed below, A effectively has a 46.375 percent interest in the equity of X following the sale — 35 percent by direct ownership, and 11.375 percent indirectly from A's 17.5 percent interest in the 65 percent of X stock owned by Y. Thus, in the brother-sister example, A's interest in the equity of X exactly matches the attributed ownership in X under the section 318 attribution rules, as modified by the section 304(b)(1) provision regarding corporate attribution. In contrast, A's interest in the equity of X in the parent-subsidiary situation is only 35 percent, while his attributed ownership is more than 51 percent.

[18]This deadlocked voting situation, however, is absent in the equivalent brother-sister stock sale discussed below. In the brother-sister stock sale, A can vote only 35 percent of the X stock and a mere 17.5 percent of the Y stock, and hence will have no control over corporate governance after the sale.





This would result in A owning 35 percent of the equity of X and 17.5 percent of the equity of Y following the transactions — again, the same interest in the equity of Y as A's indirect interest in the parent-subsidiary example. (See Figure 6.)



With the transaction recast in this manner, the sale of A's X stock would be analyzed under section 304(a)(1) since A was in control of both X and Y before the sale under section 304(c)(1). Under section 304(b)(1), the sale of X stock is then tested under the section 302(b) rules with corporate attribution applied without regard to the 50 percent limitations in section 318(a)(2)(C) and (a)(3)(C). Before the sale A owned 100 percent of X. Following the sale he owns 35 percent actually and 11.375 percent constructively by applying his 17.5 percent ownership of Y to the 65 percent ownership of X, which Y owns following the sale. As a result, A is deemed to own 46.375 percent of X after the sale, and the sale of X stock would thus qualify for exchange treatment under section 302(b)(2).

The contemporaneous redemption of A's Y stock would also qualify for exchange treatment. Before the redemption A owns 50 percent of Y, and following the redemption A owns 17.5 percent actually and no other Y stock is attributed to A since the remaining outstanding Y stock is owned by an unrelated party.[19] Hence, the redemption of A's Y stock clearly would qualify for exchange treatment under section 302(b)(2).

Thus, the sale of parent stock to the subsidiary wholly fails the objective tests of section 302 for exchange treatment, while the comparable recast sale of brother-sister stock with a contemporaneous redemption of part of the stock of one of the companies passes the objective tests of section 302 on both legs of the comparable transaction — the sale of X stock and the redemption of Y stock.

One can legitimately question why the parent-subsidiary transaction should fail to qualify for exchange treatment while the comparable brother-sister transactions do, particularly when the sole reason the parent-subsidiary stock sale fails to meet the section 302(b)(2) objective tests for exchange treatment is the circular attribution of ownership caused by the cross-ownership of X and Y.

Conclusion

This analysis suggests that judging qualification for section 302(b)(1) solely by reference to the attributed ownership in X after the sale is an imperfect and in some circumstances unreliable method of determining dividend equivalence. This is because the unique way corporate ownership is attributed under section 304 and the possibility of circular attribution when multiple corporations are involved appear to overstate the taxpayer's actual control and mask the significant reduction in the taxpayer's interest in corporate earnings and liquidation proceeds after the sale. Those distortions prevent the attributed ownership from accurately reflecting the actual economic interests and voting rights after the sale.

Comparing the parent-subsidiary stock sale with the brother-sister stock sale coupled with a redemption of a portion of the seller's stock in the related corporation also reveals some significant differences in the resulting attributed ownership and in the tax treatment of the transaction under section 302(b)(2). As noted above, A's attributed ownership in X is significantly higher in the parent-subsidiary example (51.8519 percent) than in the brother-sister

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[19]*Compare* this with the parent-subsidiary fact pattern in which 17.5 percent of the Y stock would be attributed to A by virtue of X's 50 percent ownership interest in Y and A's 35 percent ownership interest in X.

example (46.375 percent) because of the circular attribution.[20] Moreover, the different treatment under section 302(b)(2) of both the X stock sale and the Y stock redemption in the brother-sister example supports the view that the sale of stock in the parent-subsidiary example should be given exchange treatment under section 302(b)(1).[21] While this differential treatment of the parent-subsidiary example and the comparable brother-sister transactions could be solved by the application of section 302(b)(1) to secure exchange treatment, the disparate results also suggest that a statutory change to section 304 should be enacted to prevent circular attribution in the parent-subsidiary situation.

Although the rulings and nearly all the case law appear to prevent exchange treatment in our example, one can certainly question whether that is the proper result and whether any legitimate tax policy is being served by denying exchange treatment to A in this situation. A goes from being a 100 percent shareholder to a 35 percent shareholder, and he cannot control the corporation because he cannot control the voting of the other 65 percent ownership since B through his ownership of Y can prevent A's exercise of control. In fact, this situation is arguably more comparable to a sale by A of 65 percent of his stock directly to B than it is to a redemption of A's stock in X, since B either controls or can effectively prevent A from controlling Y because of the cross-ownership of X and Y. If there were no related corporation and this was a redemption of A's stock coupled with a simultaneous purchase of X stock by an unrelated person, the redemption would clearly qualify for exchange treatment under section 302(b)(2) as long as the two transactions were integrated. Since A lacks control over Y and has no relationship to B, why should the result change simply because Y was a subsidiary of X before the sale? Moreover, isn't a reduction in A's actual ownership from 100 percent to 35 percent a "meaningful" reduction in interest in everyone's lexicon since A can no longer exercise voting control over X and A's economic rights to dividends and liquidation proceeds have been substantially diminished? Nevertheless, the issue is far from settled, and its resolution will have to await a suitable court case — no doubt involving a taxpayer having no earthly idea what sort of morass he was getting into with a simple sale of stock in connection with his exit from active involvement in his businesses.

While it is appealing to judge dividend equivalency solely by reference to actual and attributed ownership before and after a transaction because of the certainty that approach provides, the above analysis shows that use of that approach in a sale to a related corporation subject to section 304 cannot and should not be relied on to the exclusion of a more detailed analysis of the actual impact of the sale of stock on corporate control and on dividend and liquidation rights. The potential distortion of ownership caused by the section 318 corporate attribution rules as modified by the provisions of section 304 should be taken into account in judging dividend equivalency in a sale subject to section 304.

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[20]This difference may suggest that the provisions of section 318(a)(5)(A), which cause the circular attribution in a parent-subsidiary cross-ownership situation, should be modified to eliminate the circular attribution in a parent-subsidiary context since any added ownership increment generated by the circular attribution appears to artificially inflate the shareholder's deemed ownership.

[21]This comparison may also suggest that the stock sale in the parent-subsidiary example should be split to establish equivalency to the brother-sister stock sale. Thus, the parent-subsidiary stock sale could be treated as two sales — the sale of an interest in X and a sale of an interest in Y — to cause a comparable result in the parent-subsidiary situation as in the brother-sister stock sale.