



OFFICE OF
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The Honorable Phil Gramm
United States Senator
2323 Bryan Street, #2150
Dallas, Texas 75201

Attention: Mr. Michael FitzGerald

Dear Senator Gramm:

This letter responds to your inquiry of April 10, 2001, on behalf of [REDACTED]. [REDACTED] wrote about the federal income tax result of a sale of stock she owned in [REDACTED]. [REDACTED] feels she is being unfairly taxed because of a stock transaction undertaken by [REDACTED] without her permission.

[REDACTED] letter does not give details about how [REDACTED] structured the transaction so I cannot address her specific case. I am pleased to give her general information about the treatment of stock sales for federal income tax purposes, under the Internal Revenue Code.

In general, people who own property that has increased in value do not owe taxes on their gains until they sell, exchange, or dispose of that property. A seller of property is generally taxed on the amount of gain resulting from the sale. The law allows some exceptions to this general rule. In some cases, if certain requirements are satisfied, corporate transactions involving the sale, exchange, distribution, or redemption of stock may take place without resulting in an immediate tax liability to the shareholders. Without knowing the specific details of this particular sale transaction, I cannot speculate on whether this transaction falls within an exception to the general rule.

For your convenience, I enclosed a copy of Publication 544, entitled "Sales and Other Dispositions of Assets," which describes the general rules that apply to sellers of property and the exceptions to those rules. I hope this information is helpful.

For further assistance in this matter please call me or Mr. Douglas C. Bates
(Identification Number 50-19577) at (202) 622-7550.

Sincerely,

Debra L. Carlisle
Chief, Branch 5 (Corporate)

Enclosure