

What is a stock redemption? What are some reasons for redeeming stock? Why are some redemptions treated as sales and others as dividends?

Stock redemption is the acquiring of a corporation's own stock in exchange for corporate property.

Some reasons for redeeming stock are:

- ~Shareholder wanting to withdraw from corporate business
- ~sell under terms of a stock purchase agreement
- ~asset withdrawal before sale of business

Some redemptions are treated as sales and others as dividends because some redemptions closely resemble a third party stock sales, while others are equivalent to a dividend.

Response 2

A stock redemption is a corporation re-acquiring its own stock. Companies do this by purchasing stock with cash, securities, or other property.

There are several reasons a corporation will redeem its own stock. If the company is family owned and one family member wants to sell their interest the corporation may buy it instead of other family members or outsiders. The death of a stockholder causes inheritance taxes that sometimes the decedent's family cannot afford. Buying back stock may increase market value by reducing the amount of stock available or stockholders have agreements with the company that the corporation has the option to buy back stock if the stockholder decides to sell.

The reason stock redemption is considered a dividend depends on the ownership percentage of the shareholder. When a shareholder is the only owner of a corporation or a major shareholder and the sale does not change the shareholder's control then the stock redemption is considered a dividend. On the other hand, the sale of stock to a corporation that ends the shareholder's activity in the corporation by taking away complete involvement or cutting their controlling interest to a non-controlling interest is considered a sale.