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Isaac M. O'Bannon • Oct. 20, 2014

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CORPORATION

The [American Institute of CPAs \(AICPA\)](#) sent a [letter](#) to the Internal Revenue Service ([IRS](#)) explaining that an ambiguity exists under current rules for determining adjustments to the accumulated adjustment account (AAA) of an S corporation when both ordinary and redemption distributions are made in the same tax year or when ordinary distributions are made after redemption distributions.

In its Oct. 16 letter, the AICPA asked for IRS guidance to provide clarity regarding the ordering rule under Internal Revenue Code section 1368.

The AICPA explained that in its view, “adjusting the AAA balance for all ordinary distributions regardless of the timing relative to the redemption provides a more reasonable outcome in most circumstances. Since a complete redemption is a sale or

exchange transaction, the presence of AAA is irrelevant for purposes of determining

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