New Jersey Mortgage & Title Co. v. Commissioner, 3 T.C. 1277 (1944)

r
r

A corporate reorganization can qualify as tax-free under Section 112(g)(1)(B) of the Revenue Act of 1934, even if the acquiring corporation assumes the acquired corporation's liabilities and modifies the terms of the debt, so long as there is a continuity of interest and substantially all of the properties are exchanged solely for voting stock.

r
r

Summary

r

New Jersey Mortgage & Title Co. (petitioner) sought a determination that a corporate reorganization with Guarantee Mortgage & Title Co. (old corporation) was tax-free. The Tax Court held that the exchange qualified as a tax-free reorganization under Section 112(g)(1)(B) of the Revenue Act of 1934, as amended. The court reasoned that the petitioner acquired substantially all of the old corporation's property solely in exchange for its voting stock, and there was sufficient continuity of interest, despite modifications to the debt and the assumption of certain liabilities. This allowed the petitioner to maintain the same basis as its predecessor corporation under Section 113(a)(6).

r
r

Facts

r

Guarantee Mortgage & Title Co. was in default on interest payments. To reorganize, it filed a petition in Chancery Court of New Jersey. The court approved a plan where the old corporation's assets were conveyed to the petitioner, New Jersey Mortgage & Title Co. The old corporation's bondholders exchanged their bonds for bonds of the petitioner, with interest accruing from October 1, 1936. The old bondholders also received preferred voting stock of the petitioner for arrears of interest and cash for interest on the petitioner's bonds. Stockholders of the old corporation received common stock of the petitioner.

r
r

© 2025 SCOTUSreports.com. All rights reserved.

Procedural History

r

The Commissioner determined a deficiency, arguing the reorganization was taxable. The petitioner contested, asserting it was a tax-free reorganization under Section 112(g)(1)(B) of the Revenue Act of 1934. The Tax Court reviewed the case.

r
r

Issue(s)

r

Whether the reorganization between Guarantee Mortgage & Title Co. and New Jersey Mortgage & Title Co. qualified as a tax-free reorganization under Section 112(g)(1)(B) of the Revenue Act of 1934, as amended, allowing the petitioner to maintain the same basis as its predecessor corporation.

r
r

Holding

r

Yes, because the petitioner acquired substantially all of the old corporation's property in exchange solely for its voting stock, the assumption of the old corporation's debt was an allowable part of the reorganization, and there was sufficient continuity of interest between the old corporation and the petitioner.

r
r

Court's Reasoning

r

The court determined that the exchange met the requirements of Section 112(g)(1)(B) of the Revenue Act of 1934, as amended. The court reasoned that the acquisition of the old corporation's assets was

© 2025 SCOTUSreports.com. All rights reserved.