5 T.C. 665 (1945)

When a corporation transfers its assets to another corporation as part of a reorganization, the transferee corporation generally inherits the transferor's tax basis in those assets, regardless of whether the reorganization was technically tax-free.

Summary

Survaunt involved a corporate restructuring where an old company transferred its assets to a new company. The Tax Court addressed whether this transfer qualified as a reorganization under Section 112(g)(1)(D) of the Internal Revenue Code, and if so, what tax basis the new corporation took in the assets. The court held that the transfer was indeed a reorganization, emphasizing that all steps in the transaction must be considered together. Consequently, the new corporation inherited the old corporation's tax basis in the assets. Additionally, the court found that legal fees incurred during the reorganization must be capitalized rather than deducted as current expenses.

Facts

An existing corporation transferred all or part of its assets to a newly formed corporation. Immediately after the transfer, the shareholders of the transferor corporation controlled at least 80% of the transferee corporation's stock. The shareholders acted as a conduit for the transfer of assets. The plan was not formally written. The new corporation continued the business of the old corporation. Debentures were distributed to the shareholders as part of the transaction.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the income tax of both the corporate petitioner and the individual petitioner, Survaunt. The taxpayers challenged the Commissioner's determination in the Tax Court. The case involves the tax treatment of a corporate reorganization and related expenses.

Issue(s)

1. Whether the transfer of assets from the old corporation to the new corporation constituted a reorganization under Section 112(g)(1)(D) of the Internal Revenue Code.
2. Whether the new corporation was required to use the same tax basis in the transferred assets as the old corporation.
3. Whether the expenses incurred for attorney's fees and related charges during the reorganization were deductible as current expenses or had to be capitalized.

Holding

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1. Yes, because the transfer of assets constituted a reorganization under Section 112(g)(1)(D) since there was a transfer of assets from one corporation to another, and immediately after the transfer, the transferor's shareholders controlled the transferee corporation.
2. Yes, because Section 113(a)(7) of the Internal Revenue Code stipulates that in a reorganization, the transferee corporation's basis in the assets is the same as the transferor's basis.
3. No, because expenses incurred for attorney's fees and related charges during a reorganization must be capitalized and are not deductible as current expenses.

Court's Reasoning

The court reasoned that the transaction constituted a reorganization because all steps of the transaction must be considered together, rather than separately, citing *Alabama Asphaltic Limestone Co., 315 U. S. 179*. The court found that the transfer of assets met the requirements of Section 112(g)(1)(D) of the Internal Revenue Code, as the shareholders of the old corporation controlled the new corporation immediately after the transfer. The court noted that the fact that stockholders acted as a conduit for the delivery of assets, the plan was not formally reduced to writing, or the stockholders had a personal reason for the arrangement did not change the result. Regarding the tax basis, the court applied Section 113(a)(7), which provides that the transferee corporation takes the transferor's basis in a reorganization. As for the expenses, the court relied on precedent such as *Skenandoa Rayon Corporation, 42 B. T. A. 1287*, holding that attorney's fees and related charges incurred during a reorganization must be capitalized.

Practical Implications

This case underscores the importance of viewing corporate restructurings as integrated transactions when determining their tax consequences. It clarifies that the tax basis of assets in a reorganization carries over from the old corporation to the new one. This decision also has implications for legal and accounting professionals, as it reinforces the requirement to capitalize expenses related to corporate reorganizations. Later cases have cited *Survaunt* for its holding on the carryover basis in corporate reorganizations, and for the principle that all steps in a reorganization must be considered together. It provides a practical guide for structuring and analyzing corporate reorganizations to ensure proper tax treatment.

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