7 T.C. 1440 (1946)

r
r

When determining whether transferors' interests in stock and securities received during a corporate formation are substantially proportionate to their interests in the transferred property, assumed liabilities are considered additional stock and securities received.

r
r

Summary

r

Mather & Co. sought to deduct losses from the sale of real estate, arguing its basis was the property's fair market value when transferred to the corporation. The Tax Court addressed whether the corporate formation qualified as a tax-free exchange under Section 203(b)(4) of the Revenue Act of 1926, as amended. The court held that the assumption of liabilities by the corporation should be treated as additional stock/securities received by the transferors for proportionality purposes. Because the transferors' interests were substantially proportionate, no gain or loss was recognized, and Mather & Co.'s basis was the same as the transferors'.

r
r

Facts

r

A partnership, Mather & Co., incorporated its business in 1926, forming the petitioner corporation. The partners transferred all assets (except those of the New York office) and good will, valued at $40,000, to the corporation. The corporation assumed the partnership's liabilities. In exchange, the partners received preferred and common stock. Charles Mather individually transferred real estate to the corporation for additional preferred stock and a promissory note. Years later, the corporation sold some of the real estate at a loss and sought to deduct these losses.

r
r

Procedural History

r

© 2025 SCOTUSreports.com. All rights reserved.

The Commissioner of Internal Revenue determined deficiencies in Mather & Co.’s income and excess profits taxes for 1942 and 1943, disallowing the claimed loss deductions from the real estate sales. Mather & Co. petitioned the Tax Court, challenging the Commissioner’s determination.

r
r

Issue(s)

r

Whether, in determining if the interests of transferors in stock and securities received in a corporate formation were

© 2025 SCOTUSreports.com. All rights reserved.