10 T.C. 7 (1948)

r
r

The Kimbell-Diamond Milling Co. case illustrates the step-transaction doctrine, where a series of formally separate steps are treated as a single, integrated transaction to determine the tax consequences based on the end result.

r
r

Summary

r

Kimbell-Diamond Milling Co. experienced a fire that destroyed part of its property and received insurance proceeds. The company used these proceeds, along with additional funds, to purchase all the stock of Whaley Mill & Elevator Co., a similar business, with the intention of liquidating Whaley to acquire its assets. The Tax Court addressed whether the insurance proceeds qualified for non-recognition of gain as an involuntary conversion under Section 112(f) of the Internal Revenue Code and whether the purchase of stock and subsequent liquidation should be treated as a single transaction for determining the basis of the acquired assets.

r
r

Facts

r

Kimbell-Diamond Milling Co.’s milling plant in Wolfe City, Texas, was partially destroyed by fire in August 1942.r
The company received $118,200.16 in insurance proceeds for the destroyed assets and deposited it into a special bank account.r
Because building restrictions and wartime shortages prevented rebuilding, Kimbell-Diamond purchased all the stock of Whaley Mill & Elevator Co. in December 1942 for $210,000, using the insurance proceeds and additional funds.r
Whaley Mill’s assets were similar to Kimbell-Diamond’s destroyed plant. Kimbell-Diamond intended to liquidate Whaley immediately after acquiring its stock to obtain its assets.

r
r

Procedural History

© 2025 SCOTUSreports.com. All rights reserved.

r

The Commissioner of Internal Revenue determined deficiencies in Kimbell-Diamond's income tax and declared value excess profits tax for the fiscal year ended May 31, 1943.r
The Commissioner argued that the insurance proceeds were taxable gain because the acquisition of Whaley's stock did not qualify as an involuntary conversion under Section 112(f).r
Kimbell-Diamond petitioned the Tax Court for review. The Commissioner amended his answer, arguing that the basis for depreciation and cost of goods sold was incorrect, seeking an increase in the deficiency.

r
r

Issue(s)

r

Whether the use of insurance proceeds to purchase stock in a company, followed by the immediate liquidation of that company to acquire its assets, qualifies for non-recognition of gain under Section 112(f) of the Internal Revenue Code as an involuntary conversion?r
Whether the purchase of stock and subsequent liquidation of Whaley should be treated as a single transaction for determining the basis of the assets acquired from Whaley?

r
r

Holding

r

Yes, the Tax Court held that the purchase of Whaley's stock qualified as an involuntary conversion under Section 112(f) because Kimbell-Diamond used the insurance proceeds to acquire control of a corporation owning similar property to what was destroyed. Therefore, the gain from the receipt of insurance was not taxable.

r
r

Court's Reasoning

r

© 2025 SCOTUSreports.com. All rights reserved.

The court reasoned that Kimbell-Diamond acquired “control” of Whaley within the meaning of Section 112(f) when it purchased all of Whaley’s stock. The court rejected the Commissioner’s argument that control already existed through common shareholders, stating that

© 2025 SCOTUSreports.com. All rights reserved.