

11 T.C. 397 (1948)

r
r

When property is transferred to a corporation in exchange for stock and the transferors maintain control of the corporation immediately after the exchange, the exchange is nontaxable, and the corporation's basis in the property is the same as the transferor's basis.

r
r

Summary

r

American Bantam Car Co. acquired assets from a group (the associates) in exchange for stock. The Tax Court addressed whether this exchange was tax-free under Section 112(b)(5) of the Revenue Act of 1936. The court held the exchange was nontaxable because the associates controlled the corporation immediately after the exchange, even though they later transferred some stock to underwriters. Therefore, the company's basis in the acquired assets was the same as the associates' basis, not the fair market value as the company argued. This case clarifies the requirements for a tax-free exchange, particularly the