12 T.C. 90 (1949)

A transaction does not qualify as a tax-free reorganization under Section 112 of the Revenue Act of 1928 if the acquiring corporation does not obtain substantially all of the target corporation's assets, and the acquiring corporation is not considered a party to the reorganization if a subsidiary ultimately receives the assets.

Summary

Richard K. Mellon and Sarah Mellon Scaife disputed the Commissioner's determination of income tax deficiencies stemming from the sale of Pullman, Inc. stock. The central issue revolved around whether a 1930 transaction between Standard Steel Car Co. (Standard), Pullman, and a newly formed subsidiary, New Standard, constituted a tax-free reorganization. Petitioners argued that it did not, entitling them to a higher basis in the Pullman stock. The Tax Court agreed with the petitioners, holding that the transfer of only part of Standard's assets and the role of a subsidiary meant the transaction failed to meet the requirements for a tax-free reorganization. This allowed the taxpayers to use the fair market value of the stock at distribution as their basis.

Facts

Standard possessed various assets, including manufacturing plants, equipment, and securities. In 1930, Pullman sought to acquire certain assets from Standard (the

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