14 T.C. 29 (1950)

When a series of steps are taken as part of a single, integrated transaction, the tax consequences are determined by viewing the transaction as a whole, rather than as separate, independent steps.

Summary

John Simmons Co. sought a “plus adjustment” to its equity invested capital for excess profits tax purposes following the liquidation of its wholly-owned subsidiary. The Tax Court addressed whether the acquisition of the subsidiary’s stock via options, followed by a merger, should be treated as a single, integrated purchase or as separate transactions. The court held that the integrated transaction doctrine applied because the steps were interdependent and completed within a short period. Therefore, the stock had a “cost basis,” and no “plus adjustment” was warranted.

Facts

William B. Franke and Harry N. Hill obtained options to purchase nearly all outstanding shares of John Simmons Co. (New York) at $20 per share. They paid $5 to each of the 27 stockholders for these options, which expired shortly thereafter. The optionees also affixed state and Federal documentary stamps at a cost of $673.28. John Simmons Co. (New Jersey), the petitioner, was incorporated shortly before the options expired. The options were assigned to the petitioner in exchange for stock and cash. The petitioner then exercised the options and acquired all outstanding shares of the New York corporation. Finally, the New York corporation was merged into the petitioner.

Procedural History

John Simmons Co. (New Jersey) filed its tax return, claiming a