16 T.C. 384 (1951)

A transaction qualifies as a tax-free reorganization under Section 112 of the Internal Revenue Code if it adheres to both the technical requirements of the statute and the broader underlying purpose, including continuity of interest and business purpose.

Summary

The Tax Court addressed whether an exchange of stock qualified as a tax-free reorganization under Section 112 of the Internal Revenue Code. The petitioners exchanged their stock in Atlas for stock in Bethlehem. The court held that the transaction qualified as a tax-free reorganization because the "plan" of reorganization contemplated that Bethlehem would be the party to the reorganization. Additionally, the petitioners bargained for and obtained a continuing interest in the assets transferred. The court emphasized that the subsequent disposal of assets to a subsidiary is significant only if that was part of the original plan. The court also rejected the argument that the sale of corporate shares constituted a transfer of its assets by the corporation.

Facts

Petitioners exchanged Atlas stock for Bethlehem stock. The reorganization "plan" contemplated that only Bethlehem would be party to the reorganization. The plan did not contemplate the possible transfer of the Atlas stock by Bethlehem.

Procedural History

The Commissioner determined a deficiency in the petitioners' income tax. The petitioners appealed to the Tax Court.

Issue(s)

1. Whether the parent company, Bethlehem, was a "party" to the reorganization, so that its stock could be received free from recognition of gain in the exchange by which petitioners acquired the Bethlehem shares in lieu of their holdings in Atlas?
2. Whether the sale of corporate shares constituted a transfer of its assets by the corporation?

Holding

1. Yes, because the "plan" of reorganization contemplated that Bethlehem should be the party to the reorganization.
2. No, because the sale of corporate shares does not constitute a transfer of its assets by the corporation.

Court's Reasoning

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The court acknowledged two approaches to analyzing reorganizations: a technical, literal approach and a broader approach considering the legislation’s aim. The court found that both approaches were satisfied in this case. The

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