*16 T.C. 820 (1951)*

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A corporate reorganization that effectively distributes accumulated earnings to stockholders is treated as a dividend, taxable as ordinary income, even if it technically complies with reorganization provisions.

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**Summary**

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Lanteen Laboratories underwent a series of transactions, including transferring a ranch to a newly formed corporation, Realty, and then distributing Realty stock to its shareholders. The Tax Court determined that this was essentially a distribution of accumulated earnings disguised as a reorganization. The court held that the distribution of Realty stock and cash to Riddlesbarger was equivalent to a dividend, taxable as ordinary income. This decision emphasizes that the substance of a transaction, rather than its form, determines its tax treatment, particularly where the primary purpose is tax avoidance.

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**Facts**

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Lanteen Medical Laboratories (the subsidiary) owned a ranch in Arizona. Rufus Riddlesbarger controlled both Lanteen Laboratories, Inc. (the parent) and its subsidiary. The subsidiary had accumulated earnings. To segregate the ranch and avoid potential tax issues, the subsidiary declared a dividend of the ranch to the parent. The parent then transferred the ranch to a newly created corporation, Realty, in exchange for Realty stock. Subsequently, the parent distributed the Realty stock and some cash to its shareholders, including Riddlesbarger, in exchange for their old stock in the parent.

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**Procedural History**

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The Commissioner of Internal Revenue determined a deficiency in Riddlesbarger's income tax, arguing that the distribution of Realty stock was a taxable dividend. Riddlesbarger petitioned the Tax Court, claiming the exchange was tax-free under corporate reorganization provisions. The Tax Court ruled in favor of the Commissioner, finding that the transaction was essentially a dividend distribution.

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**Issue(s)**

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Whether the distribution of stock in Lanteen Realty Company to Rufus Riddlesbarger, as part of a corporate reorganization, should be treated as a tax-free exchange under Section 112(b)(3) of the Internal Revenue Code, or as a distribution of earnings and profits taxable as a dividend under Sections 22(a) and 115(a) and (g) of the Code.

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**Holding**

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No, because the reorganization was merely a vehicle for distributing accumulated earnings and profits to the shareholders, effectively equivalent to a taxable dividend. The distribution is therefore taxable as ordinary income.

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**Court's Reasoning**

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The court acknowledged that the exchange met the literal requirements of Section 112(b)(3). However, relying on *Bazley v. Commissioner, 331 U.S. 737 (1947)*, the court emphasized that a transaction must intrinsically possess the characteristics of a reorganization and not be

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