20 T.C. 208 (1953)

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When an insolvent corporation’s property is transferred to a new corporation as part of a court-approved reorganization plan following foreclosure, the new corporation can use the predecessor’s basis for depreciation, provided the former bondholders maintain substantial control.

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Summary

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Standard Coal, Incorporated acquired the assets of Standard Coal Company at a foreclosure sale. The stockholders of the new corporation were primarily the bondholders of the insolvent predecessor. The Tax Court addressed whether this acquisition qualified as a tax-free reorganization under Section 112(b)(10) of the Internal Revenue Code, allowing the new corporation to use the predecessor’s basis for depreciation. The court held that the transfer was part of a court-approved plan of reorganization, thus permitting the use of the predecessor’s basis.

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Facts

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Standard Coal Company issued bonds secured by a trust indenture and chattel mortgage. The Company defaulted on interest payments, taxes, and became insolvent. Trustees initiated foreclosure proceedings in the United States District Court. Spring Canyon Coal Company, a major bondholder, requested foreclosure and offered other bondholders a chance to participate in bidding, conditional on subordinating their interests to Spring Canyon’s expenses for preserving the property. The District Court was informed of a plan to organize a new corporation, Standard Coal, Incorporated, to bid on the property and issue stock to bondholders. The court ordered the property sold without redemption rights, setting a minimum price to protect minority bondholders.

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Procedural History

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The Trustees of the bond indenture filed a foreclosure complaint in the U.S. District Court. The District Court entered findings, conclusions, and a decree ordering the sale of the property. Standard Coal, Incorporated acquired the property at the foreclosure sale. The Commissioner of Internal Revenue then determined a deficiency in Standard Coal, Incorporated's income tax. The Tax Court reviewed the Commissioner's determination.

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Issue(s)

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Whether the acquisition of Standard Coal Company's properties by Standard Coal, Incorporated constituted a transfer "to effectuate a plan of reorganization approved by the court" within the meaning of Section 112(b)(10) of the Internal Revenue Code, thus allowing Standard Coal, Incorporated to use Standard Coal Company's basis in the assets under Section 113(a)(22) of the Code.

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Holding

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Yes, because the acquisition was pursuant to a plan of reorganization approved by the court, and the former bondholders retained sufficient control in the new corporation to justify using the predecessor's basis.

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Court's Reasoning

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The court found that a

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