Transport, Inc., 27 T.C. 1137 (1957)

Under Section 112(g)(1)(C) of the Internal Revenue Code, a corporate reorganization is tax-free if one corporation acquires substantially all the assets of another solely for its voting stock.

Summary

The case concerns whether a corporate transaction qualified as a tax-free reorganization under the Internal Revenue Code. Transport, Inc. acquired substantially all of the assets of Power Gates in exchange for Transport's stock. The IRS determined that the exchange qualified as a tax-free reorganization. Transport argued that the transaction did not qualify because of a separate agreement by Transport's organizers to repurchase some of its stock, which constituted additional consideration to Power Gates beyond the stock. The Tax Court held that because the agreement to repurchase stock was made by the organizers in their individual capacities and did not create an obligation for Transport, the transaction was a tax-free reorganization under the code because the assets were acquired solely for stock.

Facts

Transport, Inc. (the petitioner) was organized in 1946. Transport purchased the assets of Signal Division of Peerless. Transport then acquired substantially all the assets of Power Gates in exchange for Transport's stock. Contemporaneously, the organizers of Transport, Going, Wilson, and Dilley, made an agreement to repurchase 920 shares of Transport stock at the option of Power Gates. The IRS determined that the transaction qualified as a tax-free reorganization under sections 112 (b) (4) and 112 (g) (1) (C), and that under section 113 (a) (7). Transport contended that the Power Gates assets were not acquired solely for Transport stock.

Procedural History

The IRS determined a tax deficiency, finding that the transaction qualified as a tax-free reorganization. Transport petitioned the Tax Court, challenging the IRS's determination. The Tax Court ruled in favor of the IRS, upholding the tax-free reorganization status of the transaction. The Tax Court found that the agreement made by Transport's organizers did not constitute a separate obligation of the corporation, and therefore the transaction was solely for stock.

Issue(s)

1. Whether the acquisition of Power Gates' assets by Transport, Inc. was made "solely for stock" under Section 112(g)(1)(C) of the 1939 Internal Revenue Code, considering the agreement of individual organizers to repurchase Transport stock.

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Holding

1. No, because the agreement to repurchase stock was made by the individual organizers, not Transport, and therefore did not constitute consideration other than stock from Transport.

Court’s Reasoning

The court relied on the plain language of the agreement between the organizers and Power Gates, which showed that the obligation to repurchase Transport’s stock was that of the individuals, not the corporation. The court found that the agreement made by Wilson, Going, and Dilley was not an agreement of the petitioner. They made the agreement in their individual capacities. Further, the court pointed out that the agreement did not create an obligation in Transport and did not represent any part of the quid pro quo. The court also emphasized that the focus should be on the actual agreement of the parties. The court noted that the agreement, on its face, was a separate agreement of the individuals to buy stock from Power Gates if the latter chose to sell it. The court concluded that the acquisition qualified as a tax-free reorganization under the code.

The court cited:

- Section 112 (b) (4) of the 1939 Code
- Section 112 (g) (1) (C) of the 1939 Code

The court’s interpretation of

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