Pinellas Ice & Cold Storage Co. v. Commissioner, 287 U.S. 462 (1933)

To qualify as a tax-free reorganization, a transaction must involve a "continuity of interest" where the shareholders of the original corporation maintain a proprietary interest in the acquiring corporation, not just receive cash or short-term obligations.

Summary

The Supreme Court ruled in *Pinellas Ice & Cold Storage Co. v. Commissioner* that a transaction structured as a sale, even if it involved the transfer of assets in exchange for short-term notes, did not qualify as a tax-free reorganization. The Court held that for a transaction to be considered a reorganization under the Revenue Act, there must be a "continuity of interest" on the part of the shareholders of the transferor corporation in the acquiring corporation. The Court reasoned that the receipt of short-term notes, essentially equivalent to cash, did not provide the necessary continuity of interest and thus the transaction was a sale, rendering the gain taxable.

Facts

Pinellas Ice & Cold Storage Company transferred its assets to the newly formed Pinellas Ice Company in exchange for $1,400,000 in cash and $500,000 in short-term promissory notes. The notes were payable in specified installments over a relatively short period (approximately three months) and bore interest. The Commissioner of Internal Revenue assessed a deficiency, arguing that the transaction was not a tax-free reorganization, and therefore the gain from the sale of assets should be recognized as taxable income.

Procedural History

The Board of Tax Appeals upheld the Commissioner's assessment, concluding that the transaction was a sale. The Court of Appeals for the Third Circuit affirmed the Board's decision. The Supreme Court granted certiorari to resolve the question of whether the transaction qualified as a tax-free reorganization under the Revenue Act.

Issue(s)

Whether the transfer of assets in exchange for cash and short-term notes constituted a tax-free reorganization under the Revenue Act of 1928.

Holding

No, because the transaction did not involve the necessary "continuity of interest" required for a reorganization.

Court's Reasoning

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The Court based its decision on the interpretation of the term

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