Tallahassee Enterprises, Inc., 33 T.C. 765 (1960)

The Internal Revenue Code can disallow tax benefits if a corporation transfers property to another corporation with a major purpose of securing tax exemptions or credits.

Summary
The case concerns whether the taxpayer, Tallahassee Enterprises, Inc., was improperly denied a surtax exemption and the ability to compute its excess profits tax as a new corporation. The Tax Court held that the surtax exemption was properly denied because a major purpose of the transfer of property (a leasehold interest) to the taxpayer was to secure the exemption. The court also found that the taxpayer was entitled to compute its excess profits tax as a new corporation, rejecting the IRS's arguments related to the transfer of merchandise and control of the corporations.

Facts
Tallahassee Enterprises, Inc. (the taxpayer) was formed by Tallahassee Enterprises, Inc. (parent corporation). The parent corporation transferred a leasehold interest in certain theaters and equipment to the taxpayer. The Tax Court determined that a major purpose of this transfer was to secure tax savings. The taxpayer sought to compute its excess profits tax as a new corporation, and the IRS challenged this, claiming the taxpayer was not entitled to compute its excess profits tax as a new corporation, citing the transfer of property and control.

Procedural History
The case was heard by the United States Tax Court. The IRS determined deficiencies against the taxpayer, which the taxpayer contested. The Tax Court issued a decision regarding the issues presented.

Issue(s)
1. Whether the taxpayer was properly denied the $25,000 exemption from surtax because a major purpose of the transfer of property to it was to secure the exemption, even though the transfer was a leasehold interest rather than a sale or exchange of property for stock.
2. Whether the taxpayer was entitled to compute its excess profits tax as a new corporation under section 430 (e)(1)(A) of the Internal Revenue Code.

Holding
1. Yes, because the court found that a major purpose of the transfer of the leasehold interest to the taxpayer was to effect tax savings, and the leasehold interest constituted property under the relevant statute.
2. Yes, because the court rejected the IRS's arguments that the taxpayer was not entitled to new corporation status based on the merchandise transaction and lack of notice regarding the control issue.

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Court's Reasoning
The court addressed the issue of tax avoidance, focusing on whether the lease of property constituted a

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