30 T.C. 602 (1958)

A corporate acquisition qualifies as a tax-free reorganization under I.R.C. § 112(g)(1)(C) only if the acquiring corporation exchanges its voting stock *solely* for the target corporation's assets, without any other form of consideration.

Summary

Bausch & Lomb Optical Company (B&L) sought to acquire the assets of Riggs Optical Company (Riggs) in a tax-free reorganization. B&L already owned a significant portion of Riggs' stock. The acquisition plan involved B&L issuing its own voting stock to Riggs, which then distributed this stock to its shareholders, including B&L. The IRS determined that because B&L effectively used its existing holdings in Riggs, and not solely voting stock, to acquire Riggs' assets, the transaction was not a tax-free reorganization under I.R.C. § 112(g)(1)(C). The Tax Court agreed, emphasizing that "solely" means *only*, and any other consideration disqualifies the transaction. The court also rejected B&L's alternative argument that it owned enough of Riggs' stock to qualify as a tax-free liquidation.

Facts

B&L, a New York corporation, planned to acquire Riggs, a Delaware corporation, where B&L owned approximately 80% of the voting stock. The acquisition plan entailed Riggs transferring all its assets to B&L in exchange for B&L's voting common stock. Riggs would then liquidate, distributing the B&L stock to its shareholders. As part of this process, B&L agreed to assume Riggs's liabilities and to distribute additional B&L stock directly to certain Riggs employees who had agreements to purchase Riggs stock. After the transaction, B&L held a significant amount of its own stock, originally issued to Riggs.

Procedural History

The Commissioner of Internal Revenue determined that B&L realized a taxable capital gain upon the liquidation of Riggs because the transaction did not qualify as a tax-free reorganization under I.R.C. § 112(g)(1)(C). B&L challenged this determination in the U.S. Tax Court.

Issue(s)

1. Whether the acquisition of Riggs' assets by B&L was a reorganization under I.R.C. § 112(g)(1)(C), thereby making the transaction non-taxable.

2. Alternatively, whether B&L owned at least 80% of Riggs' stock, entitling it to a non-taxable liquidation under I.R.C. § 112(b)(6).

Holding

1. No, because B&L did not acquire Riggs' assets solely in exchange for its voting stock, the transaction did not qualify as a tax-free reorganization under I.R.C. § 112(g)(1)(C).

2. No, because B&L did not own at least 80% of Riggs' stock, and therefore the liquidation of Riggs was not non-taxable under I.R.C. § 112(b)(6).

Court's Reasoning

The court's reasoning centered on the interpretation of I.R.C. § 112(g)(1)(C), which requires that the acquiring corporation exchange its voting stock "solely" for the target's assets. The court emphasized the Supreme Court's interpretation in *Helvering v. Southwest Consol. Corporation* that

