31 T.C. 1058 (1959)

Under Internal Revenue Code sections 15(c) (1939) and 1551 (1954), the formation of a corporation with the major purpose of securing tax benefits (surtax exemptions and accumulated earnings credits) will disallow those benefits.

Summary

Sno-Frost, Inc. (the petitioner) was created as a subsidiary of Superior Provision Company to operate a Snow Crop frozen food franchise. The Commissioner of Internal Revenue disallowed certain surtax and excess profits tax exemptions for Sno-Frost, arguing that the primary reason for its formation was to secure these tax advantages. The Tax Court ruled in favor of Sno-Frost, determining that while tax benefits were a consideration, they were not the major purpose for the corporation's creation. The court found that the parent company, Superior, formed the subsidiary primarily to satisfy Snow Crop's requirement for a separate entity and to mitigate the business risks associated with a new and different line of products. The court emphasized that the

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