***Beacon Auto Radiator Repair Co. v. Commissioner, 52 T. C. 155, 1969 U. S. Tax Ct. LEXIS 142 (1969)***

Taxpayers must prove by a clear preponderance of the evidence that securing a surtax exemption was not a major purpose of a corporate property transfer.

**Summary**

Beacon Auto Radiator Co. transferred its repair business to a newly formed, commonly controlled corporation, Beacon Auto Radiator Repair Co. , to potentially secure an additional surtax exemption. The IRS challenged this move under IRC Section 1551, which disallows the surtax exemption if a major purpose of the transfer was to obtain it. The Tax Court found that the new corporation failed to prove by a clear preponderance of the evidence that securing the exemption was not a major purpose of the transfer, as it did not present compelling business reasons for the transfer and continued to operate similarly to the original corporation.

**Facts**

Beacon Auto Radiator Co. (Beacon), primarily engaged in manufacturing and selling radiators, also conducted repair work. In 1959, Beacon transferred its repair business to a newly formed corporation, Beacon Auto Radiator Repair Co. (Petitioner), which was under common control. The repair business continued to operate in the same building, with the same management, and under a similar name. The IRS challenged the transfer, asserting that a major purpose was to secure an additional surtax exemption, which Petitioner claimed on its tax returns.

**Procedural History**

The IRS determined deficiencies in Petitioner’s income tax for the years 1960-1965, disallowing the surtax exemption under IRC Section 1551. Petitioner contested this at the U. S. Tax Court, which held a trial and issued its opinion on April 28, 1969, ruling in favor of the IRS.

**Issue(s)**

1. Whether the Petitioner established by a clear preponderance of the evidence that securing the surtax exemption was not a major purpose of the transfer of property from Beacon to Petitioner.

**Holding**

1. No, because the Petitioner failed to provide sufficient evidence that the transfer was not motivated by a major purpose to secure the surtax exemption, as required by IRC Section 1551.

**Court’s Reasoning**

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The court applied IRC Section 1551, which requires the transferee to prove by a clear preponderance of the evidence that securing the surtax exemption was not a major purpose of the transfer. The court noted that Petitioner's alleged business purposes for the transfer were weak and unconvincing. It rejected the argument that separating the repair business would alleviate competition concerns with customers, as operations remained virtually unchanged post-transfer. The court also dismissed claims related to obtaining a Harrison radiator franchise and an air-conditioner franchise, as these were not pursued post-transfer. The court concluded that Petitioner failed to meet its burden of proof under Section 1551, as it did not provide credible evidence of other compelling business reasons for the transfer.

**Practical Implications**

This decision underscores the strict burden of proof placed on taxpayers under IRC Section 1551 to demonstrate that securing a surtax exemption was not a major purpose of a corporate property transfer. Practitioners must ensure clients have well-documented, legitimate business reasons for such transfers, distinct from tax benefits. The ruling may deter similar corporate restructuring aimed at tax advantages without clear business justification. Subsequent cases have reinforced the high evidentiary standard required under Section 1551, impacting how attorneys advise clients on corporate reorganizations and the IRS's ability to challenge such arrangements.

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