Estate of Henry Lammerts v. Commissioner, 54 T. C. 325 (1970)

A transaction does not qualify as a section 368(a)(1)(F) reorganization if there is a change in stock ownership, and a section 331 liquidation is valid even if the business continues under a new corporate structure.

Summary

In Estate of Henry Lammerts, the court addressed whether a corporate transaction qualified as a section 368(a)(1)(F) reorganization or a section 331 liquidation. The case involved the distribution of assets from Lammerts (Old) to its shareholders and the subsequent formation of Lammerts (New) with different ownership. The court ruled that the transaction did not constitute an (F) reorganization due to a shift in stock ownership, and upheld the validity of the section 331 liquidation despite the continuation of the business under a new corporate entity. This decision clarified the requirements for (F) reorganizations and the scope of section 331 liquidations, impacting how similar corporate restructurings are analyzed.

Facts

Henry Lammerts died, leaving his estate to his son Parkinson and his wife Hildred. His will mandated the liquidation of Lammerts (Old), which was owned by Henry and Parkinson. Following Henry's death, the estate and Parkinson owned all shares of Lammerts (Old). Subsequently, Lammerts (New) was formed with Parkinson owning all common stock and Hildred owning all preferred stock. Assets from Lammerts (Old) were distributed to its shareholders, and Lammerts (New) continued the business without interruption. The IRS argued that this was either an (F) reorganization or a continuation of Lammerts (Old), not a valid section 331 liquidation.

Procedural History

The case was initially heard by the Tax Court, which ruled on the issues of whether the transactions constituted an (F) reorganization or a valid section 331 liquidation, the tax treatment of a stock redemption, and the penalty for late filing of the estate's tax return. The court's decision was reviewed by the full court, with one judge dissenting.

Issue(s)

1. Whether the transactions between Lammerts (Old) and Lammerts (New) constituted a section 368(a)(1)(F) reorganization?
2. Whether the distribution of assets from Lammerts (Old) qualified as a section 331 liquidation?
3. Whether the redemption of preferred stock by Lammerts (New) was essentially equivalent to a dividend under section 302?
4. Whether the estate's late filing of its fiduciary income tax return was due to

© 2025 SCOTUSreports.com. All rights reserved.

reasonable cause?

Holding

1. No, because the transaction involved a change in stock ownership, which precludes it from being considered a “mere change in identity, form, or place of organization” under section 368(a)(1)(F).
2. Yes, because the distribution of assets from Lammerts (Old) to its shareholders constituted a complete liquidation under section 331, despite the continuation of the business under Lammerts (New).
3. Yes, because the redemption of preferred stock did not change the shareholder’s position relative to the corporation and was thus essentially equivalent to a dividend.
4. No, because the estate failed to demonstrate reasonable cause for the late filing of its fiduciary income tax return.

Court’s Reasoning

The court applied section 368(a)(1)(F), which defines a reorganization as a “mere change in identity, form, or place of organization. ” It referenced previous cases like Berghash and Southwest Corp. , which established that a change in stock ownership disqualifies a transaction from being an (F) reorganization. The court found that the shift in ownership from Lammerts (Old) to Lammerts (New) did not meet the “mere change” criterion. For the section 331 liquidation, the court relied on Gallagher and Berghash, which held that a valid liquidation can occur even if the business continues under a new corporate form, as long as there is no reorganization. The court rejected the IRS’s argument that the lack of interruption in business operations negated the liquidation. Regarding the stock redemption, the court applied section 302 and the constructive ownership rules of section 318, finding that the redemption did not change Hildred’s position relative to the corporation, thus treating it as a dividend. Finally, the court found no reasonable cause for the late filing of the estate’s tax return, as the executors did not exercise ordinary business care and prudence.

Practical Implications

This decision provides clear guidance on the criteria for section 368(a)(1)(F) reorganizations and section 331 liquidations. Practitioners must ensure that any corporate restructuring does not involve a change in stock ownership if it is to qualify as an (F) reorganization. Additionally, the ruling affirms that a section 331 liquidation remains valid even if the business continues under a new corporate entity, provided there is no reorganization. This impacts how corporate liquidations and reorganizations are planned and executed. The case also underscores the importance of understanding the tax implications of stock redemptions and the necessity of timely filing of tax returns. Subsequent cases, such as Berghash and Gallagher, continue to apply these principles, reinforcing the decision’s impact on corporate tax law.

© 2025 SCOTUSreports.com. All rights reserved.