

Helvering Vs. Watts

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Court : US Supreme Court

Decided On : Dec-16-1935

Appeal No. : 296 U.S. 387

Appellant : Helvering

Respondent : Watts

Judgement :

Helvering v. Watts - 296 U.S. 387 (1935)

U.S. Supreme Court Helvering v. Watts, 296 U.S. 387 (1935)

Helvering v. Watts

No. 184

Argued November 20, 1935

Decided December 16, 1935

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CERTIORARI TO THE CIRCUIT COURT OF APPEALS

FOR THE SECOND CIRCUIT

SYLLABUS

1. Where stockholders owning all of the shares of corporation A exchanged them for stock in corporation B and mortgage bonds of corporation A guaranteed by Corporation B, there was a "reorganization" under 203(h)(1)(A) of the Revenue Act of 1924, and, by the effect of 203(b)(2), no taxable gain resulted notwithstanding the A corporation continued in business. *Helvering v. Minnesota Tea Co., ante*, p. [296 U. S. 378](#) . P. [296 U. S. 388](#) .

2. The transaction is within the description of reorganization set forth by Article 1574 of Treasury Regulations 65, applicable to the Revenue Act of 1924, and that this regulation is a proper interpretation of the Act is confirmed by the reenactment, without change, by Congress of the paragraph to which it refers. P. [296 U. S. 389](#) .

3. The bonds were "securities" within the meaning of 203(b)(2) of the Act. P. [296 U. S. 389](#) .

75 F.2d 981 affirmed.

Certiorari to review a Judgment reversing a decision of the Board of Tax Appeals, 28 B.T.A. 1056, which sustained a deficiency assessment of income taxes.

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MR. JUSTICE Mc REYNOLDS delivered the opinion of the Court.

These causes involved deficiency assessments for income tax against the three respondents for the year 1924.

They were the sole stockholders of United States Ferro Alloys Corporation, herein Ferro Alloys, and the causes, alike in all essential particulars, were dealt with below in one opinion.

The respondents maintain that they exchanged all stock of Ferro Alloys for shares of Vanadium Corporation of America and bonds of Ferro Alloys guaranteed by Vanadium, that these two corporations were parties to a reorganization, and that, under 203(b)(2), Revenue Act 1924, 43 Stat. 256, no taxable gain resulted. The Commissioner insists that the transaction was a sale of all the stock of the Ferro Alloys, and therefore taxable gain resulted. The applicable statutory provision is 203, Revenue Act 1924, the pertinent parts of which are in the margin of the opinion in *Helvering v. Minnesota Tea Co.*, ante, p. [296 U. S. 378](#) .

In December, 1924, respondents owned all the stock of Ferro Alloys Corporation. They exchanged this with the Vanadium Corporation for stock of the latter valued at \$30 per share and for \$1,161,184.50 mortgage bonds of Ferro Alloys guaranteed by Vanadium. Ferro Alloys continued to conduct business until its dissolution in 1928. Article 1574 of Treasury Regulations 65 provided that, under the Act of 1924, no gain or loss shall be recognized to the shareholders from the exchange of stock made in connection with the reorganization if two or more corporations reorganize; for example, by either the sale of the stock of B to A, or the acquisition by A of a majority of the total number of shares of all other classes of stock of B.

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The transaction here involved is within the description of reorganization recognized by the Treasury Regulation above quoted. And, if the regulation can be taken as properly interpreting the statute, the challenged judgment must be affirmed.

The court below recites the history of the Treasury Regulation above quoted, and concludes that, in view of the reenactment of the paragraph to which it refers without change, Congress intended to approve the regulation as written.

The Commissioner here maintains that the definition of reorganization found in 203(h)(1)(A), Revenue Act 1924, 43 Stat. 256, should be limited to transactions which partake of the nature of mergers or consolidations, and that here, the

Vanadium merely made an investment in Ferro Alloys stock and obtained only the rights of a stockholder therein. It is also urged that an exchange of stocks for bonds results in a substantial change of position, and that such bonds are "other property" within the meaning of the statute, and, as such, subject to tax. Much of the argument presented is the same as the one considered in the *Minnesota Tea Company* case, and it need not be again followed in detail. The bonds, we think, were securities within the definition, and cannot be regarded as cash, as were the short-term notes referred to in *Pinellas Ice & Cold Storage Co. v. Commissioner*, [287 U. S. 462](#) .

The judgment of the court below must be

Affirmed.

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