UNITED STATES TAX COURT

Owens v. Commissioner

46 T.C.M. 293 (1983) · No. Docket Nos. 9412-79, 11711-80 · Decided May 26, 1983

SUMMARY

The United States Tax Court held that a multistep transaction exchanging guarantee stock in a state-chartered savings and loan association for savings accounts in a federally chartered association qualified as a tax-free Type A reorganization under sections 354 and 368 of the Internal Revenue Code. Applying the step-transaction doctrine, the court treated the exchange offer, conversion, and merger as one integrated transaction. The court also rejected the argument that the savings accounts constituted taxable boot.

CASE DETAILS

COURT	United States Tax Court
WRITING FOR THE COURT	Fay, Judge
JURISDICTION	USA
DECIDED	May 26, 1983
DOCKET	Docket Nos. 9412-79, 11711-80
DISPOSITION	other
PROCEDURAL POSTURE	Consolidated federal income-tax deficiency cases before the United States Tax Court on the Commissioner's motion for partial summary judgment and the petitioners' cross-motion for summary judgment.
STANDARD OF REVIEW	Summary judgment is appropriate where there is no genuine dispute as to a material fact and the governing legal issue can be resolved as a matter of law; the court considered the undisputed transaction documents and applied the applicable tax statutes.
PRECEDENTIAL VALUE	Unpublished Tax Court memorandum opinion; nonprecedential
PARTIES	Shelley J. Owens, aka Shelley J. Litwiller, Shelley J. Owens and Bruce W. Owens v. Commissioner of Internal Revenue

TOPICS

income tax · corporate tax · tax court procedure · corporate law · tax

PRACTICE AREAS

Federal income taxation · Tax-free reorganizations · Tax Court litigation · Corporate reorganizations

QUESTIONS PRESENTED

1. Whether the exchange offer, conversion, and downstream merger had to be treated as a single integrated transaction under the step-transaction doctrine.
2. Whether the integrated transaction qualified as a Type A reorganization and entitled the petitioners to nonrecognition treatment under sections 354 and 356.
3. Whether the savings accounts received by Owens had separable debt and equity components such that the purported debt component constituted taxable boot.
4. Whether the petitioners were required to recognize gain on the exchange of Pacific guarantee stock for the savings accounts.

HOLDINGS

1. The exchange offer, conversion, and merger were mutually interdependent and had to be treated as a single integrated transaction under the step-transaction doctrine.
2. The integrated transaction was a Type A reorganization, and the petitioners were entitled to nonrecognition treatment for the exchange.
3. The savings accounts could not be separated into cash deposits and proprietary rights; they were treated as stock for purposes of the nonrecognition provisions, and their receipt did not constitute taxable boot.

KEY QUOTATIONS

> *"Under the step-transaction doctrine, a series of formally separate steps is consolidated to determine the overall tax consequences of a transaction."* (46 T.C.M. 293, at 296-297)

> *"Thus, under the authority of American Bantam Car, all steps must be collapsed, and petitioner's exchange of Pacific guarantee stock for Old Cal Fed accounts must be considered an integral part of a Type A reorganization under which Pacific and Old Cal Fed merged."* (46 T.C.M. 293, at 297)

> *"Accordingly, we hold the shareholders need not recognize gain upon receipt of the savings accounts."* (46 T.C.M. 293, at 298)

FACTUAL BACKGROUND

On January 2, 1975, Shelley J. Owens owned 125,685 shares of guarantee stock in Pacific Savings and Loan Association, a California state-chartered savings and loan association, with a basis of $8,618. Under an Agreement and Plan of Reorganization, she exchanged the stock for $3,661,204 in savings accounts in a federal association. The transaction consisted of an exchange offer, Pacific's conversion to a federal savings and loan association, and a downstream merger of Old California Federal Savings and Loan Association into Pacific Federal; each step was expressly conditioned on completion of the others. Owens later disposed of the exchange accounts in 1981.

PROCEDURAL HISTORY

The Commissioner determined income-tax deficiencies for Shelley J. Owens for 1975 and for Shelley J. and Bruce W. Owens for 1976 and 1977. The cases were consolidated for trial, briefing, and opinion. The parties filed cross-motions for summary judgment on whether Shelley's exchange of guarantee stock in a state-chartered savings and loan association for savings accounts in a federally chartered mutual savings and loan association qualified for nonrecognition treatment under section 354(a).

DISPOSITION

other

CASES CITED

- Paulsen v. Commissioner, 78 T.C. 291 (1982)
- Capital Savings & Loan Ass'n v. United States, 607 F.2d 970 (Ct. Cl. 1979)
- West Side Federal Savings & Loan Ass'n of Fairview Park v. United States, 494 F.2d 404 (6th Cir. 1974)
- Everett v. United States, 448 F.2d 357 (10th Cir. 1971)
- Helvering v. Limestone Co., 315 U.S. 179 (1942)
- Security Industrial Insurance Co. v. United States, 702 F.2d 1234 (5th Cir. 1983)
- Superior Coach of Florida v. Commissioner, 80 T.C. (May 16, 1982)
- King Enterprises, Inc. v. United States, 418 F.2d 511 (Ct. Cl. 1969)
- Yoc Heating Corp. v. Commissioner, 61 T.C. 168 (1973)
- Nye v. Commissioner, 50 T.C. 203 (1968)
- American Bantam Car Co. v. Commissioner, 11 T.C. 397, 405 (1948), aff'd, 177 F.2d 513 (3d Cir. 1949)
- Rocky Mountain Federal Savings & Loan Ass'n v. United States, 473 F. Supp. 779 (D. Wyo. 1979)
- First Federal Savings & Loan Ass'n v. United States, 452 F. Supp. 32 (N.D. Ohio 1978)
- Hickok v. Commissioner, 32 T.C. 80 (1959)
- Helvering v. Southwest Corp., 315 U.S. 194, 195 (1942)