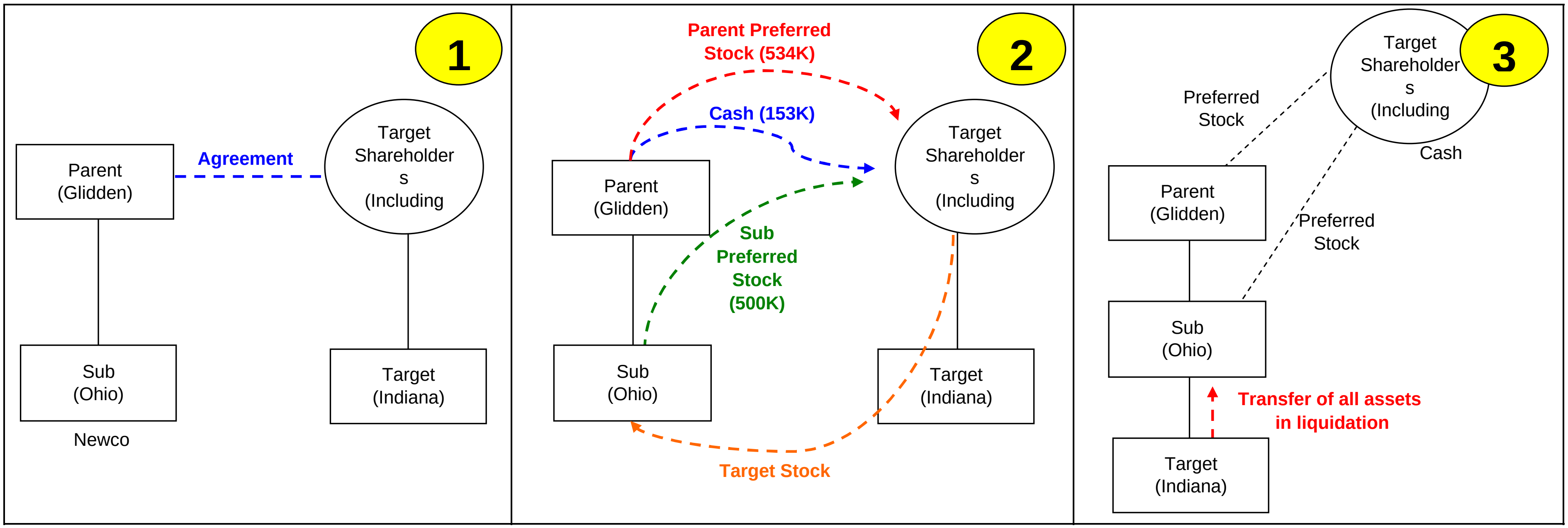
Groman v. Commissioner
302 U.S. 82 (1937)

Remote Continuity of Interest

Initial Structure **Transfer of Target Stock** **Target Liquidation**



Excerpt from Rev. Rul. 2002-85:

> In Groman, the shareholders of [Target] entered into an agreement with [Parent] pursuant to which Target would merge into Parent's newly formed subsidiary (Sub). In the transaction, the Target shareholders transferred their Target shares to Sub in exchange for shares of Parent, shares of Sub, and cash, and Target liquidated. The Court concluded that, even though the statutory definition of "party to a reorganization" was not exclusive, Parent was not a party to the reorganization because it received nothing in the exchange. The Court then stated that an exchange that is pursuant to a plan of reorganization is not taxable to the extent the interest of the stockholders of a corporation continue to be definitely represented in substantial measure in a new or different corporation. The stock of Parent, however, did not represent a continued substantial interest in the assets conveyed to Sub. Because Parent was not a party to the reorganization, the Court held that the receipt of the stock of Parent was taxable.

This case has been significantly limited with the 1954 enactment of section 368(a)(2)(C) and later amendments which allow for triangular reorganizations.

Ending Point