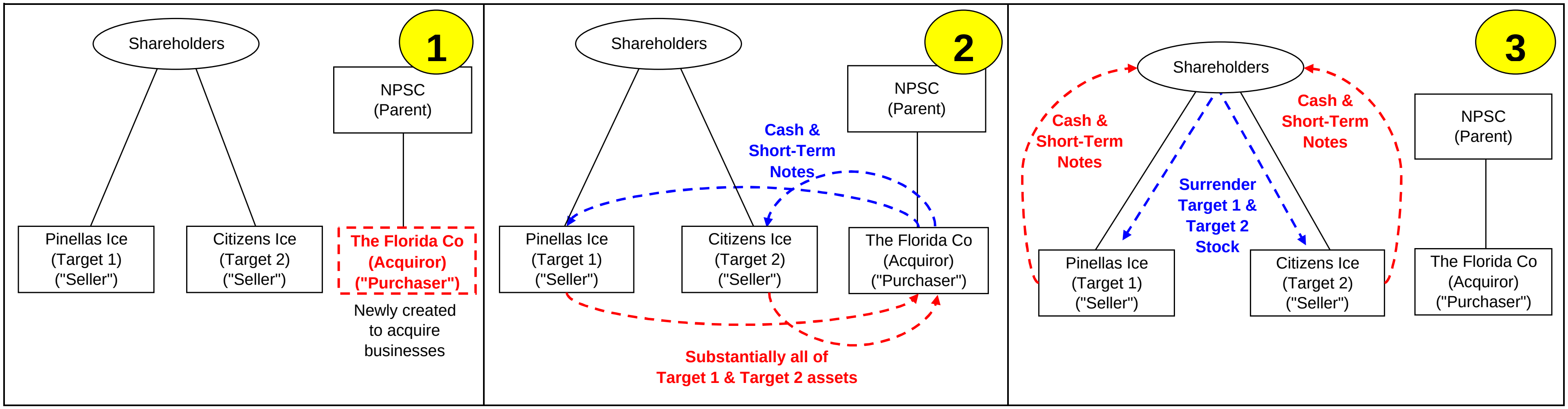
Pinellas Ice v. Commissioner
287 U.S. 462 (1933)

Short-Term Notes Not Treated As Securities - No Continuity of Interest

Initial Structure | **Asset Transfer** | **Target Liquidating Distributions**



Pinellas Ice argued that the above steps qualified as a tax free reorganization. The Supreme Court stated that "the mere purchase for money of the assets of one Company by another is beyond the evident purpose of the provision, and has no real semblence to a merger or consolidation. Certainly, we think that to be within the exemption the seller must acquire an interest in the affairs of the purchasing company more definite than that incident to ownership of its short term purchase money notes." This concept became known as the "continuity of interest" requirement. The Supreme Court discussed continuity of interest in Alabama Asphaltic, 315 US 179 (1942). The following is an excerpt from that case:

> From the Pinellas case . . . to the Le Tulle case . . . it has been recognized that a transaction may not qualify as a "reorganization" under the various revenue acts though the literal language of the statute is satisfied. . . . . The Pinellas case introduced the continuity of interest theory to eliminate those transactions which had "no real semblance to a merger or consolidation" . . . and to avoid a construction which "would make evasion of taxation very easy." . . . . In the Le Tulle case, we held that the term of the obligation received by the seller was immaterial. "Where the consideration is wholly in the transferee's bonds, or part cash and part such bonds, we think it cannot be said that the transferor retains any proprietary interest in the enterprise."

Ending Point