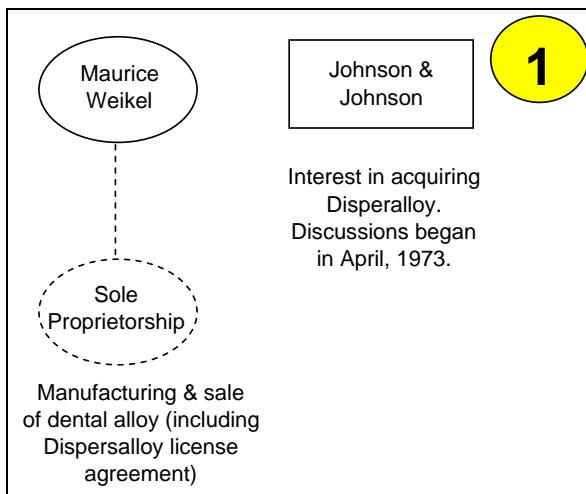


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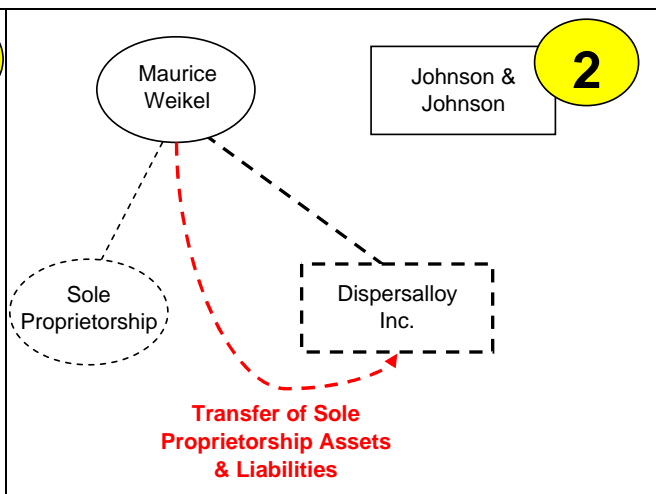
**351 Exchange Followed
by B Reorganization**

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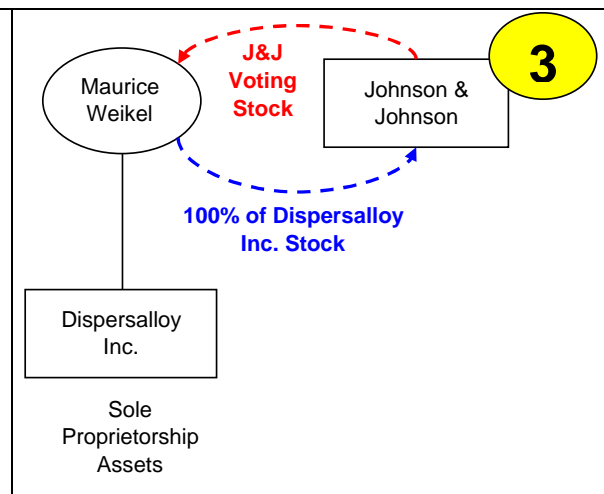
Initial Structure



351 Exchange (Nov. 1973)



B Reorganization (March 1974)



Weikel was a dentist with an exclusive licensing agreement to manufacture, market and sell a dental amalgam alloy in the U.S. under the trade name of "Dispersalloy." In April of 1973 Weikel was approached by Johnson & Johnson (J&J). In November 1973, Weikel transferred his Dispersalloy assets to the newly formed Dispersalloy, Inc. and it assumed all of his liabilities related to that business.

On January 18, 1974, an agreement was executed between Weikel and J&J entitled "AGREEMENT AND PLAN OF REORGANIZATION OF THE DISPERSALLY CORPORATION." Under the agreement, Weikel was to exchange all of the stock of Dispersalloy, Inc. for an amount of J&J common stock to be determined at a later date. On March 1, 1974, the transaction was closed with Weikel delivering all of the outstanding Dispersalloy stock to J&J. J&J then delivered 48,898 shares of its unregistered voting common stock to Weikel on April 30, 1974. The stock received by Weikel was valued at \$4,368,058. J&J treated the transaction as a taxable purchase of assets.

The issue was whether Weikel's exchange of stock of Dispersalloy, Inc., for stock of J&J was a section 368(a)(1)(B) reorganization, or whether the exchange should be "stepped together" with the incorporation of Dispersalloy and characterized as a taxable sale of Dispersalloy assets by Weikel for J&J stock pursuant to the step-transaction doctrine. The Tax Court held that Rev. Rul. 70-140, was distinguishable from Weikel's situation. The facts of the ruling illustrate a transaction that was conducted pursuant to a prearranged plan with the acquired corporation serving as a mere conduit for the transfer of assets in order to attempt a tax-free transaction.

Ending Point

