



Frank Lyon Company (Lyon) took title to a building under construction by Worthen Bank & Trust Company (Worthen) of Little Rock, Ark., and simultaneously leased the building back to Worthen for longterm use as its headquarters and principal banking facility. Worthen initially hoped to finance, to build, and to own the proposed facility. This was to be accomplished by selling debentures and using the proceeds in the acquisition of the capital stock of a wholly owned real estate subsidiary. This subsidiary would have formal title and would raise the remaining funds by a conventional mortgage loan on the new premises. Worthen's plan, however, had to be abandoned in order to satisfy state and federal regulators, and to attract the necessary capital. In September 1967 Worthen proposed a sale-and-leaseback arrangement which was approved by the regulators. In May 1968 Worthen, Lyon, City Bank, and New York Life executed complementary and interlocking agreements under which the building was sold by Worthen to Lyon as it was constructed, and Worthen leased the completed building back from Lyon. Worthen and Lyon executed a ground lease, a sales agreement, and a building lease. On its 1969 federal tax return, Lyon accrued rent from Worthen for December. It asserted as deductions one month's interest to New York Life; one month's depreciation on the building; interest on the construction loan from City Bank; and sums for legal and other expenses incurred in connection with the transaction. On audit of Lyon's 1969 return, the Commissioner determined that Lyon was "not the owner for tax purposes of any portion of the Worthen Building," and ruled that "the income and expenses related to this building are not allowable . . ." In other words, the Commissioner determined that the sale-and-leaseback arrangement was a financing transaction in which Lyon loaned Worthen \$500,000 and acted as a conduit for the transmission of principal interest from Worthen to New York Life.

The Supreme Court has observed that "taxation is not so much concerned with the refinements of title as it is with actual command over the property taxed--the actual benefit for which the tax is paid". *Corliss v. Bowers*, 281 U. S. 376, 378 (1930). In a number of cases, the Supreme Court has refused to permit the transfer of formal legal title to shift the incidence of taxation attributable to ownership of property where the transferor continues to retain significant control over the property transferred. In applying this doctrine of substance over form, the Court has looked to the objective economic realities of a transaction rather than to the particular form the parties employed. The Court has never regarded "the simple expedient of drawing up papers," as controlling for tax purposes when the objective economic realities are to the contrary. "In the field of taxation, administrators of the laws, and the courts, are concerned with substance and realities, and formal written documents are not rigidly binding." Nor is the parties' desire to achieve a particular tax result necessarily relevant. The Government placed great reliance on *Helvering v. Lazarus & Co.* The Lazarus case was one involving only two (and not multiple) parties, the taxpayer-department store and the trustee-bank. Worthen was not allowed to enter into the type of transaction which the Government urged to be the true substance of the arrangement. Lyon is not a corporation with no purpose other than to hold title to the bank building. The Supreme Court held that where there is a genuine multiple-party transaction with economic substance which is compelled or encouraged by business or regulatory realities, is imbued with tax-independent considerations, and is not shaped solely by tax-avoidance features that have meaningless labels attached, the Government should honor the allocation of rights and duties effectuated by the parties.