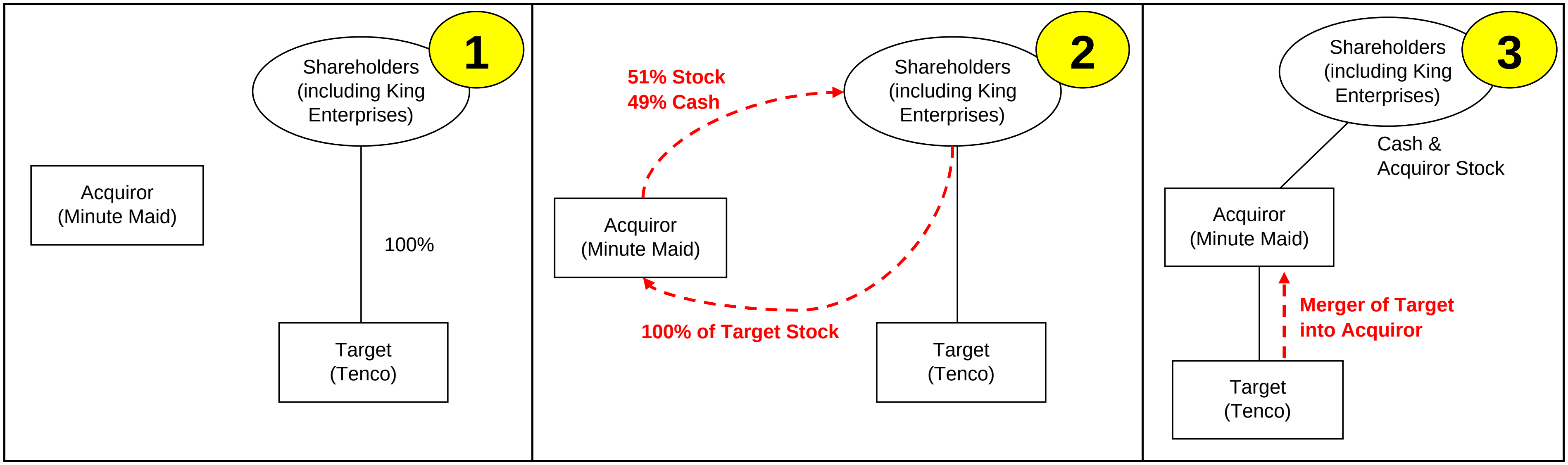
King Enterprises v. United States
189 Ct. Cl. 466 (Ct. Cl. 1969)

Two step merger

Initial Structure | **Acquisition of Target (9/3/59)** | **Merger of Target into Acquiror (4/30/60)**



Under the step transaction doctrine, the Court stepped together the acquisition and the merger (steps 2 & 3 above). Thus, the Court treated the net result as a direct merger of Target into Acquiror.

Each Target shareholder received the same proportionate amount of stock and cash. Therefore, the distribution of cash had "the effect of the distribution of a dividend" and was taxable to the shareholders as a dividend. Sec. 356(a)(2).

Compare Rev. Rul. 2001-26 in which an acquisition of 51% of Target for voting stock of Acquiror and a subsequent merger of Target into Subsidiary of Acquiror was treated as a tax free reorganization under sections 368(a)(1)(A) and 368(a)(2)(E).

Ending Point