

## Tax-Free Exchanges of Property Pursuant to Corporate Mergers and Consolidations.

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*SUBJECT(S): CORPORATION LAW, TAXATION*

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The Article is an overview of Republic Act No. 1921, entitled An Act to Amend Section Thirty-Five of the National Internal Revenue Code, and for Other Purpose. In discussing the said Act, the Author first sets the historical background by giving the doctrine laid in *Ogan v. Meer*. In that case, it was ruled that when one exchanges his stock in a corporation with a stock of another corporation, gain or loss by reason of that transaction is deemed realized by comparing the market value of the two stocks. The Author takes note that this ruling, if applied to every exchange of property by reason of corporate reorganization, will result to unfavorable tax consequences.

The Author discusses the Act, which he labels as the “reorganization statute.” In a nutshell, the Act provides that no gain or loss shall be recognized if by reason of the merge or consolidation, one of the party corporations, a shareholder of one of the party corporations ora security holder of one of the party corporations, exchanges stocks between the two corporations.

He also cites the principles underlying tax-free exchanges in mergers or consolidations such as the transaction being entirely for business purpose and the “continuity of interest.” As an application of these principles, three conditions are given to qualify a transaction for the tax-free reorganization. First, the transaction must be pursuant to a plan of merger or consolidation. Second, one corporation must acquire substantially all the properties of the other corporation. Third, it must be in exchange solely for all or a part of the voting stock of the acquiring corporation.