1 T.C. 416 (1943)

A taxpayer cannot avoid income tax liability by assigning income to a family member if the taxpayer retains substantial control over the income-producing asset, such that the assignment is considered a mere redirection of income rather than a true transfer of property.

Summary

J.G. Dodson, the sole owner of a yeast formula and trademark, formed a corporation, retaining 51% of its shares. He then contracted with the corporation, granting exclusive use of the formula and trademark for royalties. Dodson later assigned half of this royalty contract to his wife, paying gift taxes on the transfer. The Commissioner sought to tax the full royalty income to Dodson. The Tax Court held that the assignment was not a completed gift for tax purposes because Dodson retained control over the contract through his control of the corporation, making the royalty income fully taxable to him. This decision aligns with the principle that income is taxed to the one who controls its disposition.

Facts

J.G. Dodson developed a formula for

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