2 T.C. 276 (1943)

A mere written partnership agreement between spouses is insufficient to recognize a partnership for federal income tax purposes if the business is essentially the continuation of one spouse's individual enterprise, the other spouse contributes no capital, and the parties treat the income inconsistently with partnership principles.

Summary

Francis Doll sought to treat income from his shoe-selling business as partnership income with his wife after previously reporting it as his individual income. The Tax Court held that despite a written partnership agreement, no bona fide partnership existed because Mrs. Doll contributed no capital, the business remained under Mr. Doll's control, and the income was consistently treated as Mr. Doll's. A state court decree affirming the partnership was deemed collusive and not binding on the Tax Court.

Facts

Francis Doll, previously a sole proprietor selling shoes on commission, signed a "partnership agreement" with his wife in 1932. The agreement stated that they would share profits, losses, assets, and liabilities equally, but Mr. Doll would manage the business. Mrs. Doll contributed no capital and received a fixed salary of $200 per month, reported as her income. Mr. Doll continued to contract with manufacturers in his name and reported the business income as his own for several years before attempting to file amended returns claiming partnership status.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Mr. Doll's income tax for 1937-1939, treating all income from the shoe-selling business as his. Mr. Doll petitioned the Tax Court, alleging that a partnership existed with his wife. After the petition was filed, Mrs. Doll filed a suit in Missouri state court seeking a declaration of partnership, to which Mr. Doll consented. The state court found a partnership existed. The Tax Court then reviewed Mr. Doll's petition.

Issue(s)

1. Whether a valid partnership existed between Francis Doll and his wife for federal income tax purposes, based on the written agreement and their conduct of the business.
2. Whether the Tax Court was bound by the Missouri state court's decree finding that a partnership existed.

Holding

1. No, because the business was essentially Mr. Doll's individual enterprise, Mrs.

© 2025 SCOTUSreports.com. All rights reserved.

Doll contributed no capital, and the parties treated the income inconsistently with partnership principles.
2. No, because the state court proceeding was collusive, lacking a genuine dispute, and aimed at improperly affecting federal tax liability.

Court's Reasoning

The Tax Court emphasized that the business remained Mr. Doll's, with Mrs. Doll merely providing services for a fixed salary. She contributed no capital, did not contract with manufacturers, and the income was consistently reported as Mr. Doll's prior to the amended returns. The court stated, "The operation was that of the petitioner and the income was his income." The Tax Court found that the state court decree was not binding because it was a collusive attempt to affect federal tax liability, noting that there was "no difference, dispute or controversy" between Mr. and Mrs. Doll regarding the business. Citing *Freuler v. Helvering*, the court clarified it would not recognize a state court decision sought to "adversely affect the Government's right to additional income tax."

Practical Implications

This case illustrates the importance of demonstrating substantive economic reality to establish a partnership for tax purposes, even with a written agreement. A mere agreement, without capital contributions, shared control, and consistent treatment of income as partnership income, is insufficient. It serves as a caution against attempts to retroactively recharacterize income to minimize tax liability. Legal practitioners should advise clients that the IRS and Tax Courts will scrutinize family partnerships closely, especially those formed primarily for tax avoidance. Subsequent cases have cited *Doll* to emphasize the need for a genuine business purpose and economic substance in partnership arrangements.

© 2025 SCOTUSreports.com. All rights reserved.