T.C. Memo. 1947-311

Income is generally taxed to the one who earns it, and an assignment of income, as opposed to an assignment of income-producing property, does not shift the tax burden.

Summary

Ronald Mattox assigned income from contracts to his wife, Louise. The Tax Court ruled that the income was taxable to Ronald, not Louise, because the payments under the contracts represented distributions from a corporation substantially owned by Ronald, or alternatively, because the payments were attributable to Ronald's efforts. The court reasoned that assigning the income stream, without assigning the underlying income-producing property (the corporate stock or the right to perform the services), did not shift the tax liability. The court allowed a small portion of the income to be taxed to Louise, corresponding to the few shares of stock she owned in the corporation.

Facts

Ronald Mattox owned substantially all the stock of Ronald Mattox Co. The company transferred fraternity and sorority accounting contracts to Huth and Reineking. Huth and Reineking agreed to pay commissions or royalties to Ronald Mattox as an individual. Ronald Mattox assigned the income from these contracts to his wife, Louise Mattox. The Commissioner determined that this income was taxable to Ronald, not Louise.

Procedural History

The Commissioner assessed deficiencies against Ronald Mattox for income tax. Mattox petitioned the Tax Court for a redetermination of the deficiencies. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether income from contracts assigned by Ronald Mattox to his wife, Louise, is taxable to Ronald Mattox, where the income represents either distributions from a corporation substantially owned by Ronald or compensation for Ronald's services.

Holding

Yes, because the payments were either distributions from a corporation substantially owned by Ronald Mattox, or alternatively, compensation for Ronald's services, and the assignment of income did not shift the tax burden.

Court's Reasoning

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The court reasoned that the commissions or royalties were payments made for the corporation's property and business taken over by Huth and Reineking. Because Ronald Mattox owned substantially all the stock of the corporation, the payments were essentially distributions from the corporation. The court cited *Gold & Stock Telegraph Co.*, 26 B. T. A. 914; affd., 83 Fed. (2d) 465, noting that such distributions are taxable to the shareholder, even if assigned to someone else. The court also cited *Helvering v. Horst*, 311 U.S. 112, reinforcing the principle that the power to dispose of income is the equivalent of ownership. Alternatively, if the payments were considered royalties or commissions properly payable to Ronald as an individual, the court found that the assignment of this income would still be taxable to him, citing *Estate of J. G. Dodson*, 1 T. C. 416. The court distinguished *Herbert R. Graf*, 45 B. T. A. 386, a case relied upon by the petitioner, on its facts. The court also noted that Louise Mattox owned a small number of shares (3/100) and a corresponding portion of the distributions should be taxable to her.

Practical Implications

This case illustrates the enduring principle of the assignment of income doctrine: one cannot avoid taxation by merely directing income to another person while retaining control of the income-producing asset. It highlights the importance of distinguishing between assigning income versus assigning income-producing property. Attorneys should advise clients that attempts to shift income without transferring the underlying asset (e.g., stock, partnership interest, or the contract itself) will likely be unsuccessful. This case also demonstrates how the IRS and courts may look beyond the form of a transaction to its substance, particularly in cases involving closely held corporations and related parties. Subsequent cases will continue to apply this principle, scrutinizing arrangements designed to deflect income to lower-taxed individuals or entities.

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