***Van Wagoner v. United States*, 368 U.S. 532 (1962)**

An individual who manages oil production and directs the distribution of proceeds to nonresident alien investors is a “person having control” over fixed or determinable annual or periodical income, and therefore responsible for withholding U.S. income taxes.

Summary

Van Wagoner, a U.S. resident, managed two Canadian syndicates that owned working interests in Texas oil wells. He received payments from pipeline companies for the oil produced and directed the distribution of these proceeds to the Canadian syndicate members. The IRS assessed deficiencies against Van Wagoner for failing to withhold U.S. income taxes from these payments to nonresident aliens. The Supreme Court affirmed the Tax Court’s decision, holding that Van Wagoner had sufficient “control” over the income to be considered a withholding agent under U.S. tax law.

Facts

Two Canadian syndicates owned working interests in oil wells located in Texas.
Van Wagoner, a U.S. resident, managed the operations of these oil wells.
Pipeline companies made payments for the oil produced directly to Van Wagoner.
Van Wagoner then directed the distribution of these payments to the syndicate members in Canada, who were nonresident aliens.
Van Wagoner did not withhold any U.S. income taxes from these payments.

Procedural History

The IRS assessed tax deficiencies against Van Wagoner for failure to withhold U.S. income taxes on the payments to the Canadian syndicate members.
Van Wagoner petitioned the Tax Court for redetermination, arguing that he was not required to withhold taxes.
The Tax Court ruled against Van Wagoner, holding that he was a withholding agent.
The Fifth Circuit affirmed the Tax Court’s decision.
The Supreme Court granted certiorari and affirmed the Fifth Circuit’s decision.

Issue(s)

Whether Van Wagoner, as manager of the oil well operations and distributor of the proceeds, was a “person having the control, receipt, custody, disposal, or payment” of fixed or determinable annual or periodical income of nonresident aliens, thereby requiring him to withhold U.S. income taxes under Section 143(b) of the Internal Revenue Code (and predecessor statutes).

Holding

Yes, because Van Wagoner had sufficient control over the income as manager and distributor to be considered a withholding agent under the relevant tax statutes.

Court's Reasoning

The Court emphasized the broad language of the statute, which imposed the withholding obligation on any "person having the control, receipt, custody, disposal, or payment" of income belonging to nonresident aliens. The Court reasoned that the proceeds from oil production, like mining, are considered income-producing operations, not the sale of capital assets.
The Court noted that the income was "determinable" because it could be calculated by multiplying the barrels of oil sold by the prevailing price. The payments were also "periodical" because they were made monthly.
The Court found that Van Wagoner's role in managing the oil well operations, receiving payments from the pipeline companies, and directing the distribution of those payments to the Canadian syndicate members, constituted sufficient control to trigger the withholding obligation.
The Court stated, "The statutory language is broad and covers all persons who have the 'control, receipt, custody, disposal, or payment' of the items of income specified."
The Court rejected Van Wagoner's argument that he was merely acting as an agent for the syndicates, holding that his managerial role and control over the funds made him responsible for withholding.

Practical Implications

This case clarifies the scope of the "control" test for determining who is responsible for withholding U.S. income taxes on payments to nonresident aliens. It establishes that a person who actively manages income-generating assets and directs the distribution of proceeds to foreign investors can be considered a withholding agent, even if they are acting on behalf of the investors.
Legal practitioners must advise clients who manage assets or businesses on behalf of nonresident aliens to carefully evaluate their potential withholding obligations. Failure to do so can result in significant tax liabilities and penalties.
The case highlights the importance of establishing clear agreements regarding withholding responsibilities when dealing with nonresident aliens and U.S. sourced income.
Later cases have cited Van Wagoner for its broad interpretation of "control" in the context of tax withholding and have applied it to various factual scenarios involving payments to foreign entities and individuals.