*4 T.C. 1012 (1945)*

Income from a business, particularly a personal service business, is taxable to the individual who earns it, and mere partnership formalities will not shift that tax burden where the purported partners do not genuinely contribute capital or services.

**Summary**

L.D. Simmons and R.W. Laughlin contested income tax deficiencies, arguing their wives were valid partners in their well elevation business. The Tax Court found that despite partnership agreements and profit distributions, the wives' contributions were minimal and the business was primarily a personal service provided by Simmons and Laughlin. The court held that the income reported by the wives was properly included in the income of Simmons and Laughlin because they were the true earners of the income. The court emphasized the lack of significant capital contribution or services rendered by the wives.

**Facts**

Simmons and Laughlin operated a well elevation business through three partnerships: Laughlin, Simmons & Co. (Oklahoma); Laughlin, Simmons & Co. of Kansas; and Laughlin-Simmons & Co. of Texas. Partnership agreements designated Laughlin and his wife as having a 50% interest and Simmons the other 50%. However, tax returns and books showed different allocations, including interests for both wives. The wives' claimed interests were based on purported gifts and services. The business was capital-light, relying primarily on the services of Simmons, Laughlin, and their employees. The Commissioner of Internal Revenue challenged the validity of the wives as partners, attributing their income share to their husbands.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in the income tax returns of Simmons and Laughlin for the years 1939 and 1940, attributing income reported by their wives as partners in the well elevation businesses to Simmons and Laughlin. Simmons and Laughlin petitioned the Tax Court for a redetermination of these deficiencies.

**Issue(s)**

1. Whether the amounts of distributive income reported by the petitioners from certain partnerships are to be increased by the portions of the income of said partnerships which their respective wives reported in their separate returns.

**Holding**

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1. No, because the wives did not genuinely contribute capital or services to the partnerships; therefore, the income was properly attributed to Simmons and Laughlin.

**Court's Reasoning**

The Tax Court reasoned that the business was primarily a personal service venture, with profits largely attributable to Simmons and Laughlin's efforts, not capital. The court found the wives' purported contributions insufficient to qualify them as genuine partners. Regarding Mrs. Laughlin, the court noted her activities were mainly social and did not constitute substantial services to the business. Regarding Mrs. Simmons, the court acknowledged she did some office work but found it insufficient to establish her as a true partner. The court emphasized that "income is taxable to him who earns it," citing *Lucas v. Earl*, 281 U.S. 111 (1930). The court distinguished *Humphreys v. Commissioner*, noting that, unlike in *Humphreys*, the wives in this case made no direct or substantial contribution of capital from their separate funds.

**Practical Implications**

*Simmons v. Commissioner* clarifies the requirements for recognizing family members as legitimate partners for tax purposes. It emphasizes that simply designating family members as partners and distributing profits to them is insufficient. Courts will scrutinize the arrangement to determine whether the purported partners actually contribute capital or services to the business. This case reinforces the principle that income from personal services is taxable to the individual providing those services. The case serves as a cautionary tale against using partnership formalities solely for tax avoidance purposes, especially in service-based businesses. Later cases cite *Simmons* for its application of *Lucas v. Earl* and its emphasis on the economic realities of partnership arrangements when determining tax liabilities.

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