131 F.2d 292 (5th Cir. 1942)

r
r

Income is taxed to the one who earns it, and anticipatory arrangements, including family partnerships, cannot deflect taxation of income from the true earner, especially when the income is primarily derived from personal services.

r
r

Summary

r

Earp sought to deflect income tax liability by forming a partnership with his children. The court determined the income was still attributable to him because the business's earnings were derived primarily from his personal services, and the children contributed little to the partnership. The court upheld the Commissioner's assessment, reinforcing the principle that income tax liability cannot be avoided through arrangements lacking economic substance.

r
r

Facts

r

Earp, operating a business as a sole proprietor, purportedly formed a partnership with his children. The alleged partnership agreement assigned significant portions of the business interests to the children. However, Earp continued to manage the business and provide essential services, while the children's contributions were minimal.

r
r

Procedural History

r

The Commissioner of Internal Revenue determined that Earp was liable for the entire income of the business, despite the purported partnership. Earp petitioned the Board of Tax Appeals, which upheld the Commissioner's determination. Earp then appealed to the Fifth Circuit Court of Appeals.

© 2025 SCOTUSreports.com. All rights reserved.

r
r

Issue(s)

r

Whether income from a business purportedly operated as a family partnership should be taxed to the father when his personal services are the primary income-producing factor, and the children contribute little or no services or capital.

r
r

Holding

r

No, because the father's personal services were the primary income-producing factor, and the children's contributions were insignificant. The court found the purported partnership lacked economic substance for tax purposes, affirming the principle that income is taxed to the earner.

r
r

Court's Reasoning

r

The court applied the principle established in *Lucas v. Earl*, which states that income is taxed to the one who earns it. The court emphasized that Earp's personal services were the primary source of the business's income. The children provided minimal services or capital, thus the partnership was deemed a mere arrangement to deflect tax liability. The court cited the Supreme Court's warning against ignoring "matters of substance and reality" by "attenuating subtleties." The court reasoned that to allow such arrangements would undermine the integrity of the tax system. The court stated, "The question is whether the father, in fact, gave his children an interest in the business, or whether he merely made a paper assignment of income."

r
r

Practical Implications

r

Earp v. Jones serves as a cautionary tale for taxpayers attempting to use family

© 2025 SCOTUSreports.com. All rights reserved.

partnerships or similar arrangements to avoid income tax. It reinforces the importance of economic substance over form in tax law. The case highlights that the IRS and courts will scrutinize family business arrangements to determine the true earner of income. It emphasizes that mere formalities are insufficient to shift tax liability. Later cases have cited *Earp v. Jones* to disallow similar attempts to deflect income, particularly in personal service businesses. Attorneys must advise clients that a valid partnership for tax purposes requires genuine contributions of capital or services by all partners. This case also informs legal reasoning in situations where individuals attempt to assign income to other entities or individuals to minimize their tax burden. It underscores the enduring principle that "taxation is not so much concerned with the refinements of title as it is with actual command over the property taxed—the actual benefit for which the tax is paid."

© 2025 SCOTUSreports.com. All rights reserved.