***Getsinger v. Commissioner*, 7 T.C. 893 (1946)**

A family partnership will not be recognized for income tax purposes if it is merely a device to reallocate income among family members without a genuine contribution of capital or services by all partners.

Summary

Getsinger and Fox, the petitioners, sought to reduce their income tax liability by creating a partnership with their wives, assigning each wife a 25% interest in their business, Getsinger-Fox Co. The wives contributed no capital or services to the business. The Tax Court held that the partnership was not valid for income tax purposes, as the wives did not genuinely contribute to the business's earnings, and the arrangement's primary purpose was tax avoidance. The court emphasized that income should be taxed to those who earn or create the right to receive it.

Facts

Getsinger and Fox operated a business, Getsinger-Fox Co. In December 1940, they each made gifts of a portion of their business interests to their respective wives. Simultaneously, they executed an agreement establishing a partnership where Getsinger, Fox, and their wives would each own a 25% interest. The wives contributed no capital or services to the business. The petitioners paid themselves salaries of $10,000 each and sought to distribute the remaining profits equally among the four partners for income tax purposes. Gift tax returns were filed for the gifts to the wives.

Procedural History

The Commissioner of Internal Revenue challenged the validity of the partnership for income tax purposes, asserting that the petitioners earned all the income and the wives were not bona fide partners. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether the partnership formed by Getsinger, Fox, and their wives should be recognized for income tax purposes, allowing the business's income to be distributed among all four partners, despite the wives' lack of capital or service contribution.

Holding

No, because the wives contributed no capital or services to the business, and the partnership's primary purpose was to reduce income taxes by reallocating income within the family.

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Court’s Reasoning

The Tax Court reasoned that the manifest purpose of including the wives in the partnership was to reduce income taxes. The court emphasized that the definition of a partnership requires a contribution of capital or services, or both, by each partner for the mutual benefit of the contributors. The wives made no such contribution. The court cited *Helvering v. Horst*, 311 U.S. 112, stating that “[t]he dominant purpose of the revenue laws is the taxation of income to those who earn or otherwise create the right to receive it and enjoy the benefit of it when paid.” The court also referenced *Earp v. Jones*, stating that a partnership formed solely to minimize income taxes, without creating a new and different economic unit, is not valid for tax purposes. The court found that the earnings were attributable to the services of Getsinger and Fox and that the profits would not have been different had the agreement never been executed.

Practical Implications

Getsinger illustrates the principle that family partnerships must be genuine business arrangements, not merely tax avoidance schemes. For a family partnership to be recognized for tax purposes, each partner must contribute either capital or services to the business. This case and subsequent rulings emphasize the importance of economic substance over form in tax law. Attorneys advising clients on forming family partnerships must ensure that all partners actively participate in the business or contribute significant capital. Later cases have built upon this principle, requiring a careful examination of the intent of the parties and the economic realities of the partnership to prevent abuse of the tax system. This case highlights that simply filing gift tax returns does not guarantee the validity of the partnership for income tax purposes.

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