5 T.C. 1096 (1945)

A family partnership is recognized for tax purposes only if each member contributes either capital or services to the business.

Summary

The case concerns whether a family partnership was bona fide for tax purposes. Frank G. Ennis, Sr. formed a partnership with his wife, adult son, and two minor children. The Commissioner of Internal Revenue argued that the entire income from the business should be taxed to Ennis, Sr. The Tax Court held that the wife and adult son were bona fide partners because they contributed either capital or services. However, the minor children were not bona fide partners because they contributed neither capital nor services. Thus, the income attributed to the wife and son was not taxable to Ennis, Sr., but the income attributed to the minor children was.

Facts

Frank G. Ennis, Sr., started a wholesale paper business in 1922 with a $500 loan. His wife, Carrie Mae Ennis, assisted him from the beginning. She took orders, made statements, and worked at the store daily. In 1938, Ennis, Sr., formed a partnership with Carrie Mae, their adult son Frank G. Ennis, Jr., and their minor daughter Mary Louise. In 1942, their minor son Robert L. Ennis, was added as a partner. Carrie Mae and Frank, Jr., actively worked in the business. Mary Louise and Robert performed no services. The partnership agreement stipulated that Ennis, Sr. would manage the business.

Procedural History

The Commissioner of Internal Revenue determined that the entire net income of the business should be included in Frank G. Ennis, Sr.’s income. The Tax Court reviewed the Commissioner’s determination.

Issue(s)

1. Whether a bona fide partnership existed between Frank G. Ennis, Sr., and his wife, Carrie Mae Ennis, for tax purposes.
2. Whether a bona fide partnership existed between Frank G. Ennis, Sr., and his adult son, Frank G. Ennis, Jr., for tax purposes.
3. Whether a bona fide partnership existed between Frank G. Ennis, Sr., and his minor children, Mary Louise and Robert L. Ennis, for tax purposes.

Holding

1. Yes, because Carrie Mae Ennis contributed substantial services to the business.
2. Yes, because Frank G. Ennis, Jr., contributed both capital and services to the

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business.
3. No, because Mary Louise and Robert L. Ennis contributed neither capital nor services to the business.

Court's Reasoning

The court emphasized that family partnerships are subject to careful scrutiny. The court applied the rule that a partnership exists when individuals contribute either property or services to a joint business for their common benefit and share in the profits. The court noted that Carrie Mae Ennis worked in the business since its inception, contributing significant services and even using her own money to pay off the initial business loan. Similarly, Frank G. Ennis, Jr., contributed both capital (accumulated bonuses left in the business) and significant services. The court stated, "those persons are partners, who contribute *either property or services* to carry on a joint business for their common benefit, and who own and share the profits thereof in certain proportions." However, Mary Louise and Robert provided no services and their capital contributions were derived solely from shares of business income, not from their own earnings or property. Therefore, they were not considered bona fide partners.

Practical Implications

This case clarifies the requirements for recognizing family partnerships for tax purposes. It emphasizes that simply being a family member and receiving a share of the profits is insufficient. Each partner must actively contribute to the business, either through capital investment from their own assets or by providing valuable services. This case serves as a reminder that the IRS will scrutinize family partnerships to ensure that they are not merely schemes to shift income to lower tax brackets. Later cases cite *Ennis* for the proposition that a valid partnership requires contribution of either capital or services, and that family partnerships warrant special scrutiny.

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