6 T.C. 693 (1946)

Income from a family partnership will be taxed to the spouse who controls the business and earns the income, even if there is a formal partnership agreement.

Summary

Floyd Akers, who operated an automobile agency, transferred a one-half interest in the business assets to his wife after the corporation dissolved, with the understanding that the assets would remain in a newly formed partnership. The Tax Court considered whether the entire partnership income should be taxed to Akers. The court found that despite the formal partnership, Akers maintained control of the business and his wife's involvement was minimal. The court held that the Commissioner was correct in including the entire partnership income in Akers' gross income, as the partnership was not a bona fide arrangement for tax purposes. The court, however, sided with Akers on the goodwill valuation of the corporation.

Facts

Floyd Akers owned all the stock of Capitol Cadillac Co. The company held franchises for Cadillac, La Salle, and Oldsmobile automobiles. Akers' wife, Irma, had no official role in the corporation but occasionally attended meetings and entertained business associates. In December 1940, Akers borrowed money and purchased the remaining shares of Capitol Cadillac Co. The corporation dissolved on December 31, 1940, and Akers received the assets on January 2, 1941. On January 2, 1941, Akers transferred a one-half interest in the property to his wife. A formal partnership agreement was created on the same day. Saving taxes was a consideration in forming the partnership.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Akers' income tax for 1941, including a valuation for "going concern" value of the corporation and taxing Akers on the entire net income of the partnership. Akers petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the Commissioner erred in including an amount for "going concern value" in corporate assets received by Akers upon the corporation's distribution?

2. Whether the Commissioner erred in including the entire partnership income in Akers' gross income?

Holding

1. No, because the franchises that the corporation held could be terminated and

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were not assignable, so the goodwill was tied to the franchises and ceased when the franchises were terminated.

2. No, because Akers maintained control of the business, his wife's contributions were not substantial, and tax savings was a primary motive for forming the partnership.

Court's Reasoning

Regarding the

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