Harry L. Lang, 7 T.C. 617 (1946)

Income from a business is taxable to the individual who controls the business and provides the capital and services, even if a partnership agreement exists with family members who contribute neither capital nor services.

Summary

The Tax Court held that income from a business was fully taxable to the husband, Harry L. Lang, despite a partnership agreement that included his wife and minor children. The court reasoned that the wife and children contributed no capital or services to the business; their alleged contributions were derived solely from purported gifts from Lang. The children's occasional, compensated work was deemed trivial and insufficient to establish a legitimate partnership. This case reinforces the principle that family partnerships lacking genuine economic substance will not be recognized for income tax purposes, aligning with the Supreme Court's decisions in *Commissioner v. Tower* and *Lusthaus v. Commissioner*.

Facts

Harry L. Lang, the petitioner, formed a partnership with his wife and minor children. The wife and children purportedly contributed to the partnership through simultaneous gifts from Lang. Some of the children worked for Lang Co. during vacations and odd times, receiving wages for their services. The wife was not employed in the business but purportedly discussed important matters with Lang and the children after the partnership's formation. One child was ten years old, and the oldest was eighteen.

Procedural History

The Commissioner of Internal Revenue assessed deficiencies against Harry L. Lang, arguing that the income attributed to the family partnership should be taxed to him. Lang petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether income from a business is taxable to the husband when a partnership agreement includes his wife and minor children, but the wife and children contribute no capital or services to the business, except what they simultaneously received by alleged gifts from the petitioner.

Holding

No, because the wife and children contributed nothing of economic substance to the partnership, as their contributions originated solely from gifts made by the husband/father, and the services rendered were either trivial or already

© 2025 SCOTUSreports.com. All rights reserved.

compensated.

Court’s Reasoning

The Tax Court relied on *Commissioner v. Tower*, 327 U.S. 280, and *Lusthaus v. Commissioner*, 327 U.S. 293, which established that income from a business is taxable to the individual who controls it and provides the capital and services, even with a family partnership agreement. The court emphasized that the wife and children provided no real contribution to the business, as their capital stemmed directly from Lang’s gifts. The children’s minimal work was already compensated and did not demonstrate genuine partnership. The court determined that Lang retained control and management of the business. It stated, “It is not contended that the children or the wife contributed anything to the business except what they had simultaneously received by alleged gifts from the petitioner.” The court distinguished the situation from cases where family members actively contribute capital or services, demonstrating a genuine intent to operate as partners.

Practical Implications

Harry L. Lang, alongside *Tower* and *Lusthaus*, provides a framework for evaluating family partnerships for tax purposes. It highlights that simply creating a partnership agreement is insufficient to shift income tax liability. Attorneys must advise clients that family partnerships will be scrutinized to determine if each partner contributes capital or services. The case demonstrates the importance of documenting actual contributions and business purpose, not just formal agreements, to establish a valid partnership for tax purposes. Subsequent cases have cited *Lang* to disallow income splitting through family partnerships where contributions are minimal or derived from gifts from the controlling family member.

© 2025 SCOTUSreports.com. All rights reserved.