Druggists' Supply Corporation v. Commissioner, 8 T.C. 1305 (1947)

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A corporation operating with cooperative aspects may still be classified as a business corporation for federal income tax purposes if it operates with significant independence and control over its income and expenses.

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Summary

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The Tax Court addressed whether Druggists' Supply Corporation, which argued it functioned as a cooperative for 100 wholesale druggists, should be taxed as a business corporation or a mere collection agency. The court held that the corporation was properly classified as a business corporation because it exercised significant control over its income and expenses, entered into contracts in its own name, and maintained reserves. While the payments were computed based on members' purchases, they became the corporation's property, and distributions were not based on an enforceable legal liability. The court overturned the penalty for failure to file an excess profits tax return, finding reasonable cause based on prior IRS approvals of the corporation's accounting methods.

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Facts

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Druggists' Supply Corporation was incorporated under New York's Business Corporation Law.r
It filed federal corporate income tax returns without claiming exemption under section 101 of the Internal Revenue Code.r
The corporation was owned by 100 wholesale druggists who held shares in equal proportions.r
It entered into contracts with manufacturers to provide services for a fee, with payments calculated on the wholesalers' purchases.r
The corporation held meetings, appointed officers, fixed salaries, controlled fund distribution, and maintained investments and reserves.r
Distributions to the wholesalers were termed "participation distributions.

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