9 T.C. 153 (1947)

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A partnership lacking economic substance and formed primarily to shift income for tax avoidance purposes may be disregarded, and the income attributed to the entity that actually earned it.

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Summary

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R. O. H. Hill, Inc. (the Petitioner) sought to reduce its tax liability by forming a partnership with its two owners, R.O.H. Hill and Henry Jacquerod. The partnership contracted with the Petitioner to handle the profitable “E” award program printing business, allowing the Petitioner to retain only cost plus 10%. The Tax Court disregarded the partnership as a sham, finding it lacked economic substance and served only to divert income from the Petitioner. The court reallocated the partnership’s income to the Petitioner and allowed a deduction for additional employee compensation paid by the partnership.

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Facts

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R. O. H. Hill, Inc., was engaged in the printing and engraving business. Facing declining revenues due to wartime conditions, the company sought new lines of business. The company’s officers, R.O.H. Hill and Henry Jacquerod, formed a partnership called

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