10 T.C. 83 (1948)

A partnership formed by the stockholders of a corporation to take over a portion of the corporation's business will be recognized for tax purposes if the partnership operates as a separate economic unit and conducts business with the corporation at arm's length, even if the primary motivation is tax avoidance.

Summary

Buffalo Meter Company, a corporation, faced deficiencies assessed by the Commissioner of Internal Revenue, who sought to include the income of a partnership formed by the corporation's stockholders in the corporation's gross income. The partnership was created to handle the manufacturing portion of the business, while the corporation retained the foundry operations. The Tax Court held that the partnership should be recognized for tax purposes because it was a separate and real economic entity, dealing with the corporation at arm's length and serving valid business purposes, even if tax considerations played a role in its formation.

Facts

Buffalo Meter Company, engaged in manufacturing liquid meters, had its stock owned by the Bassett family. The company conducted both foundry work and machine shop operations. In 1942, stockholders Charles and Robert Bassett formed a partnership named

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