Morrison v. Commissioner, 11 T.C. 696 (1948)

A family partnership will not be recognized for tax purposes if family members do not contribute capital originating with them, substantially contribute to the control and management of the business, or perform vital additional services.

Summary

The Tax Court addressed whether income from a family partnership was taxable entirely to the petitioner (father) or equally to all four partners (father, wife, and two sons). The court held that the wife and sons were not bona fide partners for tax purposes. The wife's capital contribution largely originated from gifts from her husband. The sons were minor high school students who contributed limited time and no capital of their own. The court emphasized the father's dominant role in the business and the lack of substantial contributions from the other family members, leading it to conclude that the partnership was a mere reallocation of income.

Facts

Morris Morrison initially operated a furniture store as a sole proprietorship. He formed a two-member partnership with his wife in 1940, and subsequently a four-member partnership with his wife and two sons in 1941. The wife's capital contribution largely came from gifts from her husband. The sons were high school students who worked part-time at the store. The Commissioner challenged the validity of the four-member partnership for the tax years 1942 and 1943, arguing that the income should be taxed entirely to Morrison.

Procedural History

The Commissioner determined a deficiency in Morrison's income and victory tax for 1943, arguing that the partnership income should be reallocated to him. Morrison petitioned the Tax Court, contesting the reallocation and arguing that the deficiency notice was untimely. The Tax Court ruled in favor of the Commissioner, upholding the deficiency determination.

Issue(s)

1. Whether the income from the four-member family partnership is taxable entirely to the petitioner, or whether it is taxable equally to all four members.
2. Whether the deficiency for 1943 was determined within the time prescribed by law.

Holding

1. No, because the wife and sons did not contribute capital originating with them, substantially contribute to the control and management of the business, or perform vital additional services.

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2. No, because the notice of deficiency was mailed to the petitioner within the statutory period of limitation.

Court’s Reasoning

The court relied heavily on *Commissioner v. Tower*, emphasizing that the critical inquiry is whether the family members genuinely intended to carry on business as partners. The court found that Mrs. Morrison’s capital contribution was largely derived from gifts from her husband, and she did not substantially contribute to the control and management of the business. The sons were also deemed not to be genuine partners, as they were primarily high school students who contributed minimal time and effort to the business; their capital contributions came entirely from gifts. The court noted that, “the result of the partnership was a mere reallocation of income among the family members.” The court distinguished the case from *Culbertson v. Commissioner*, where the sons had special skills and a genuine intent to contribute to the partnership. Regarding the timeliness of the deficiency notice, the court found that the notice was mailed within the statutory period, and the supplemental letter detailing the reallocation of partnership income did not render the notice untimely.

Practical Implications

This case reinforces the principle that family partnerships will be closely scrutinized to determine their validity for tax purposes. It highlights the importance of demonstrating that each partner contributes either capital originating with them or substantial services to the business. Legal practitioners should advise clients forming family partnerships to ensure that all partners actively participate in the business and contribute resources beyond mere reallocation of income. Later cases have cited *Morrison* to emphasize the need for genuine business purpose and economic substance in family partnership arrangements. The decision serves as a warning against using family partnerships solely for tax avoidance purposes.

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