12 T.C. 384 (1949)

For a husband and wife to be recognized as business partners for federal income tax purposes, they must demonstrate that they genuinely transacted business as a partnership, considering factors like written agreements, record-keeping, and representation to third parties.

Summary

H.A. and Mildred Eckhard disputed deficiencies in their 1943 income taxes. The Tax Court addressed whether the couple operated their business as a partnership, allowing them to split the income, and whether H.A. constructively received income from prior years in 1943. The court held that no genuine partnership existed because the business records, tax filings, and representations to the government consistently identified H.A. as the sole owner. Additionally, the court found that H.A. did not constructively receive income in prior years because the funds were not credited to him on the corporate books and he lacked sufficient control over the corporation.

Facts

H.A. and Mildred Eckhard were married in 1923. In 1941, Mildred provided $5,000 from her personal funds for H.A. to purchase 50 shares of stock in General Tires, Inc. H.A. also entered into an employment contract with General Tires, Inc., agreeing to leave a portion of his remuneration with the corporation as operating capital. Mildred worked full-time in the business, performing various management tasks. Over time, the business prospered, and with profits, the remaining 97 shares of stock were purchased in H.A.'s name. In 1943, the corporation dissolved, and the business continued as General Tires. The business proceeds were deposited into an account accessible to both petitioners, though subject to a co-signature requirement. The profits were invested jointly. However, a written partnership agreement was never executed.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Eckhards' 1943 income taxes, arguing they were not entitled to report income on a community property basis or as partners. The Eckhards petitioned the Tax Court for a redetermination of these deficiencies. The Tax Court consolidated the cases.

Issue(s)

1. Whether the petitioners, H.A. and Mildred Eckhard, were partners in the operation of General Tires for federal income tax purposes in 1943.
2. Whether H.A. Eckhard constructively received $12,832.76 of income from General Tires, Inc. during the period from July 1, 1941, to February 8, 1943, and is therefore taxable on that amount in 1943.

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Holding

1. No, because the evidence did not demonstrate that the couple genuinely transacted business as a partnership; the business records, tax filings, and representations to the government consistently identified H.A. as the sole owner.
2. No, because H.A. Eckhard, on the cash basis, did not receive the income in the earlier years, nor was it credited to him on the corporate records, and he did not have sufficient control over the corporation to establish constructive receipt.

Court’s Reasoning

Regarding the partnership issue, the court emphasized that while Mildred contributed capital and services, the critical question was whether they acted as partners. The court found a lack of evidence supporting a genuine partnership. No written agreement existed, and the oral agreement was not definitively proven. No partnership records, capital accounts, or partnership tax returns were filed. H.A. consistently represented himself as the sole owner in filings with the government,

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