

Giant Auto Parts, Ltd. v. Commissioner, 13 T.C. 307 (1949)

An entity will be taxed as a corporation if it more closely resembles a corporation than a partnership in its general form and manner of operation, considering factors such as centralized management, limited liability, transferability of interests, and continuity of life.

Summary

Giant Auto Parts, nominally a limited partnership, was assessed tax as an association taxable as a corporation. The Tax Court addressed whether Giant Auto Parts more closely resembled a corporation than a partnership. The court considered factors outlined in *Morrissey v. Commissioner*, including centralized control, limited liability, transferability of interests, and continuity of enterprise. The Tax Court held that Giant Auto Parts possessed enough corporate characteristics to be classified and taxed as a corporation, despite being organized as a limited partnership under Ohio law.

Facts

Giant Auto Parts was organized in 1938 as a limited partnership association under Ohio law. The business sold auto parts. The entity was previously operated as a corporation and was re-organized as a partnership to avoid social security taxes. The partnership agreement allowed for transferability of interests, subject to offering the interest to the association first. Title to real property was held in the name of "Giant Auto Parts, Limited." The company brought and defended lawsuits in its own name. The members' personal liability was limited to the amount of their capital subscriptions.

Procedural History

The Commissioner of Internal Revenue determined that Giant Auto Parts should be classified and taxed as a corporation for the tax years in question. Giant Auto Parts petitioned the Tax Court for a redetermination. The Tax Court reviewed the partnership's characteristics and manner of operation.

Issue(s)

1. Whether Giant Auto Parts, a limited partnership association under Ohio law, should be classified as an "association" taxable as a corporation under Section 3797(a)(3) of the Internal Revenue Code.

Holding

1. Yes, because Giant Auto Parts possessed enough corporate characteristics, including limited liability, transferability of interests, continuity of enterprise, and a degree of centralized management, to be classified as an association

taxable as a corporation.

Court's Reasoning

The Tax Court relied on *Morrissey v. Commissioner*, which established criteria for determining whether an entity should be taxed as a corporation based on its resemblance to corporate characteristics. The court found that Giant Auto Parts had transferability of interests, continuity of enterprise (uninterrupted by the transfer of a member's interest), held title to property in its own name, and its members enjoyed limited liability. The court addressed the petitioner's argument that its business was not conducted under a centralized control or management by stating, "The activities petitioner has shown to have been regularly performed by its members appear to have been in the nature of routine duties which are commonly delegated by a business to responsible employees." The Tax Court emphasized that the business operated similarly before and after incorporation, suggesting an intent to retain corporate advantages. The court stated that the taxpayer's stated purpose is determined by the instrument by which their activities were conducted, citing *Helvering v. Coleman-Gilbert Associates*.

Practical Implications

This case clarifies the factors considered when determining whether a business entity should be taxed as a corporation, regardless of its formal organization under state law. The decision emphasizes that substance over form dictates tax classification. Attorneys advising clients on entity formation must consider the potential tax implications of corporate characteristics, even if the entity is nominally a partnership. The case serves as a reminder that structuring a business to avoid taxes requires careful planning to avoid inadvertently creating an entity that is taxed as a corporation. Later cases have cited *Giant Auto Parts* to support the principle that the IRS can reclassify a partnership as a corporation if its characteristics more closely resemble a corporation.