Middlebrook v. Commissioner, 13 T.C. 35 (1949)

r
r

A wife can be a legitimate partner in a business with her husband for tax purposes if she genuinely contributed capital originating from her own assets and provides valuable services to the partnership, demonstrating a good-faith intent to operate the business together.

r
r

Summary

r

Middlebrook sought to recognize his wife, Virginia, as a partner in Metropolitan Buick Co. for tax years 1941-1945. The IRS contested, arguing Virginia didn't contribute capital or vital services. The Tax Court held that Virginia was a valid partner because she made a capital contribution via a prior unconditional gift of stock from her husband and provided business expertise. The court also found that the statute of limitations barred assessment of a deficiency for 1941.

r
r

Facts

r

r
In 1938, Middlebrook gifted his wife 199 shares of stock in his corporation. In March 1939, he gifted her one additional share. In late 1938, Middlebrook's auditors suggested dissolving the corporation and forming a partnership for tax benefits. Virginia was initially reluctant but agreed after assurances about risk management. On March 15, 1939, the corporation dissolved, and a partnership was formed, with Virginia contributing her stock holdings. The partnership agreement restricted her ability to transfer her interest to anyone other than her husband. Virginia provided business advice to the partnership.r

r
r

Procedural History

r

© 2025 SCOTUSreports.com. All rights reserved.

r
The Commissioner of Internal Revenue assessed deficiencies against Middlebrook, arguing that the partnership income attributed to Virginia should be taxed to him. Middlebrook petitioned the Tax Court for review.r

r
r

Issue(s)

r

r
1. Whether Virginia D. Middlebrook should be recognized as a partner with her husband for income tax purposes in the Metropolitan Buick Co. partnership.r
2. Whether the assessment and collection of the deficiency for 1941 are barred by the statute of limitations.r

r
r

Holding

r

r
1. Yes, because Virginia contributed capital that belonged to her and rendered important services to the partnership, demonstrating a good-faith intent to operate the business together.r
2. Yes, because the omission from gross income did not exceed 25% of the reported gross income; therefore, the five-year statute of limitations does not apply.r

r
r

Court’s Reasoning

r

r
The Tax Court relied on *Commissioner v. Tower* and *Commissioner v. Culbertson* to determine whether a valid partnership existed for tax purposes. The court found that Middlebrook’s gift of stock to his wife was complete and unconditional. The court distinguished this case from *Tower* because the gift here was not conditioned on forming the partnership. The court emphasized that Virginia contributed capital originating from her own property when the corporation was liquidated, and the assets were transferred to the partnership. The court also noted that Virginia

© 2025 SCOTUSreports.com. All rights reserved.

provided valuable services based on her business experience. Quoting *Culbertson,* the court emphasized that the key is whether the partners

© 2025 SCOTUSreports.com. All rights reserved.