Hoosick Engineering Co. v. Commissioner, 1950 Tax Ct. Memo LEXIS 129 (1950)

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Income is taxed to the individual or entity that earns it through their labor and capital, even if formal arrangements are made to divert that income to another party, especially when the arrangement lacks economic substance and is primarily tax-motivated.

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Summary

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The Hoosick Engineering Co. case addresses whether income could be shifted from husbands to their wives via a partnership arrangement for tax avoidance. The husbands, experienced in the automobile parts business, formed a company that proved successful. To reduce excess profits tax, their tax counsel suggested forming a partnership of their wives, employing the husbands to run the business. The Tax Court held that the husbands were still taxable on the business's profits because the arrangement lacked economic substance and the income was primarily generated by their efforts and capital. The court also disallowed deductions for contributions to pension and profit-sharing plans because the husbands retained ownership and were not true "employees."

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