14 T.C. 542 (1950)

A family partnership will not be recognized for tax purposes if the parties did not genuinely intend to operate the business as a partnership, particularly when the arrangement appears designed primarily to reduce tax liability.

Summary

Frank Boylin petitioned the Tax Court, challenging the Commissioner's determination that a portion of partnership income attributed to his wife, Dorothy, should be taxed to him. The court considered whether Dorothy was a legitimate partner in the Hoffman-Boylin business. The court found that although the partnership agreement and filings suggested a valid limited partnership, the evidence demonstrated that Frank and Dorothy never intended for her to be a real partner. The court held that the income was properly taxable to Frank, as the partnership lacked genuine intent and business purpose.

Facts

Frank Boylin was a partner in Hoffman-Boylin, a ladies' coat and suit manufacturer. In March 1944, Frank, his wife Dorothy, Jacob Hoffman, and his wife Minna, entered into an agreement establishing a limited partnership. Frank and Jacob were designated general partners, with Dorothy and Minna as limited partners. Dorothy contributed $15,000 to the partnership using a bank loan co-signed by Frank. The arrangement stipulated that profits would be split, with 15% allocated to each of the wives. Frank and Dorothy separated in July 1944 and divorced soon after. Dorothy testified she signed the partnership agreement at Frank's instruction, understanding it was to reduce his taxes, and that she had no real intention to be a partner and little knowledge of the business.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Frank Boylin's 1944 income tax, asserting that income allocated to Dorothy under the partnership agreement should be taxed to Frank. Boylin petitioned the Tax Court, contesting the Commissioner's determination.

Issue(s)

Whether the Commissioner erred in taxing the petitioner on the portion of partnership income designated to his wife, based on the argument that she was not a legitimate partner in the business.

Holding

No, because the petitioner and his wife did not genuinely intend to operate the business as a partnership, and the arrangement lacked a business purpose,

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indicating its primary aim was to reduce tax liability.

Court’s Reasoning

The court focused on the intent of the parties, particularly whether they

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