Rose v. Commissioner, 7 T.C. 920 (1946)

A family member will not be recognized as a partner in a business for income tax purposes if they do not genuinely intend to join together in the present conduct of the enterprise, considering factors such as their abilities, capital contributions, and actual control of income.

Summary

The Tax Court upheld the Commissioner's decision to tax the income of a business to the petitioner, despite partnership agreements allocating shares to her mother and aunt. The court found that the mother and aunt, elderly and lacking business acumen, did not genuinely intend to participate in the business. Their limited abilities, lack of capital contribution (beyond what the petitioner provided), and absence of meaningful control over income indicated that they were not bona fide partners for tax purposes. The court also ruled that the partnership's tax year remained unchanged, as the reacquisition of the aunt's interest did not create a new partnership.

Facts

The petitioner, Rose, sought to allocate a portion of her business income to her mother and aunt through partnership agreements. The stated reasons included providing for them and avoiding them feeling like objects of charity. The mother was elderly (around 74) and passed away within a year. The aunt, Blanche, was also elderly, lacked business experience, and relied entirely on the petitioner for financial matters. The petitioner described the aunt as someone who

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