Tindall v. Commissioner, 17 T.C. 666 (1951)

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A family member is not considered a partner in a business for tax purposes unless they genuinely intend to presently conduct the business together, contribute capital or services, and participate in its management.

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Summary

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The Tax Court addressed whether a father and son were business partners for tax purposes. The Commissioner argued they were, while the taxpayers (the father and son) contended they were not. The court ruled that the son was not a partner because he did not genuinely intend to conduct the business, contribute capital, or provide services during the tax years in question. The court emphasized the importance of present participation and intent in determining partnership status, especially in intra-family arrangements. This case illustrates the application of partnership principles in the context of family businesses and tax law.

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Facts

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J.M. Tindall, the petitioner, owned the Tindall Cotton Oil Mill. On May 31, 1944, Tindall purportedly conveyed a one-third interest in the mill to his son, James E. Tindall, in exchange for a $30,000 note payable in installments beginning May 31, 1947. At the time of the agreement, the son was a minor serving in the Army. He remained in the Army until February 13, 1946, and then re-enrolled in college, not working for his father until 1949. The son’s disabilities as a minor were removed in July 1944, but the agreement was canceled around April 28, 1947, before the first payment was due, and the son reconveyed his interest to his father.

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Procedural History

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The Commissioner assessed a deficiency, arguing that J.M. Tindall and his son were partners and that the business losses should be allocated accordingly. The Tindalls petitioned the Tax Court, arguing there was no valid partnership. The Tax Court heard the case to determine the validity of the partnership for the tax years in question.

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Issue(s)

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Whether James E. Tindall was a bona fide partner with his father, J.M. Tindall, in the Tindall Cotton Oil Mill during the fiscal years ended May 31, 1945, and May 31, 1946, for federal income tax purposes.

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Holding

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No, because James E. Tindall did not genuinely intend to conduct the business, contribute capital, or provide services to the Tindall Cotton Oil Mill during the tax years in question. His note was voidable due to his minority and was later canceled, and he did not participate in the business's operations.

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Court's Reasoning

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The court relied on *Commissioner v. Culbertson*, emphasizing that a person should not be taxed as a partner merely based on an intent to contribute in the future. The court highlighted the importance of present participation in the business. Here, the son's military service and subsequent college enrollment prevented his active participation. The court also found that the son's note for $30,000 did not constitute a valid capital contribution because, as a minor, the contract was voidable, and he disaffirmed it before performance. The court distinguished cases where minors' capital contributions were considered valid because those minors had either had their disabilities removed prior to the agreement or had actually repaid their notes out of profits. Because there was no genuine intent to presently conduct the business together, no capital contribution, and no services provided, the court found

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no partnership existed for tax purposes. The court stated, “it was not the intention of petitioner J. M. Tindall and of his son James E. Tindall, in good faith and acting with a business purpose, either at the time the agreement of May 31, 1944, was entered into or during the fiscal years ended May 31, 1945 and 1946, to join together in the present conduct of the business.”

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