***Beamsley v. Commissioner, 18 T.C. 988 (1952)***

Income is taxed to the one who earns it, even if the right to receive it has been assigned to another party.

### Summary

Foster Beamsley, an influential figure at National City Lines, arranged for his wife to receive payments from Transportation Underwriters Agency, Inc., based on commissions earned from National's insurance policies. The Commissioner of Internal Revenue argued these payments were income to Mr. Beamsley, not Mrs. Beamsley, despite being paid directly to her. The Tax Court agreed, holding that the payments were attributable to Mr. Beamsley's influence and contacts, and thus taxable to him as ordinary income, regardless of the arrangement to have them paid to his wife.

### Facts

From 1934 to 1939, Foster Beamsley and R.H. Johnson controlled Transportation Underwriters Agency, Inc. (Underwriters).
Underwriters earned commissions from selling insurance, primarily to National City Lines, Inc. (National).
Mr. Beamsley was a vice president, director, and stockholder of National, with close ties to its president, E. Roy Fitzgerald.
In 1939, the Beamsleys withdrew from Underwriters per an agreement where Mrs. Beamsley surrendered her stock.
The agreement included a provision where Underwriters would pay Mrs. Beamsley a percentage of gross commissions earned on National's insurance policies for a set period.

### Procedural History

The Commissioner of Internal Revenue assessed deficiencies against Mr. Beamsley, claiming the payments to Mrs. Beamsley were his income. The Beamsleys petitioned the Tax Court, arguing the payments were part of the purchase price for Mrs. Beamsley's stock and taxable to her as capital gains. The Tax Court reviewed the case to determine whether the payments were income to Mr. or Mrs. Beamsley and the nature of the income (ordinary or capital gain).

### Issue(s)

Whether payments made to Mrs. Beamsley, based on commissions earned by Underwriters from National's insurance business, are taxable as income to Mr. Beamsley.

### Holding

 

Yes, because the payments were compensation for the influence Mr. Beamsley held over National's decision to place its insurance with Underwriters, regardless of whether that influence was real or perceived by the other party, Johnson.

**Court's Reasoning**

The Tax Court reasoned that the payments were attributable to Mr. Beamsley's position and influence at National. Although Mr. Beamsley never sold insurance himself, his close relationship with National's president and his role within the company put him in a position to influence the placement of National's insurance business. The court found that the agreement to pay Mrs. Beamsley a percentage of the commissions was intended as compensation for that influence, whether real or merely perceived by Johnson. The court emphasized that substance, not form, should control the determination of who is taxed on income. The court cited *Lucas v. Earl, 281 U.S. 111* and related cases to support the principle that income is taxed to the one who earns it, even if arrangements are made to have it paid to another party. The court found it significant that the commission payments were strictly limited to insurance originating from National, indicating that they reflected an understanding that Mr. Beamsley controlled that business or was a significant factor in its retention.

**Practical Implications**

This case reinforces the assignment of income doctrine, reminding taxpayers that they cannot avoid taxation by simply directing income to another person or entity. Attorneys should advise clients that the IRS and courts will look to the substance of a transaction, not just its form, to determine who truly earned the income. This case highlights the importance of carefully structuring business transactions to ensure that income is taxed to the appropriate party, particularly when dealing with related parties or individuals with significant influence over business decisions. The ruling also clarifies that even perceived influence can be sufficient to attribute income to an individual, emphasizing the need to consider the context and motivations behind payment arrangements.

 