18 T.C. 988 (1952)

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Income is taxed to the person who earns it, and one cannot escape taxation by assigning the right to receive income to another, even if that other person is a spouse.

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Summary

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Foster Beamsley, an officer at National City Lines, and R.H. Johnson equally controlled Transportation Underwriters Agency. When Beamsley withdrew from Underwriters, his wife received payments based on commissions from National City Lines' insurance business, a client Beamsley influenced. The Tax Court ruled these payments were taxable to Foster Beamsley, not his wife, as they compensated for his influence in retaining National City Lines as a client, irrespective of whether that influence was real or merely perceived. This case illustrates the principle that income is taxed to the one who earns it, even if payments are directed to another party.

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Facts

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Foster Beamsley was a vice president at National City Lines, Inc. (National), a bus line holding company. His wife, Inez Beamsley, owned stock in Transportation Underwriters Agency, Inc. (Underwriters), an insurance brokerage firm. R.H. Johnson and his wife owned the other half of Underwriters. Underwriters secured a large portion of its business from National, due in part to Foster Beamsley's influence. Upon Foster Beamsley's withdrawal from Underwriters, an agreement stipulated that Inez Beamsley would receive payments based on one-half of the gross commissions earned by Underwriters from National's insurance policies.r

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Foster and Inez Beamsley's income tax, attributing the payments made to Inez to Foster. Inez had initially reported the payments as ordinary income, then later claimed they should be treated as capital gains. The Tax Court consolidated the cases, ultimately ruling the payments were taxable to Foster Beamsley as ordinary income.r

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Issue(s)

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Whether payments made to Inez Beamsley, based on commissions earned by Underwriters from National City Lines insurance policies, are taxable to Foster Beamsley, given his position and influence with National.r

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Holding

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Yes, because the payments were essentially compensation for Foster Beamsley's influence, real or perceived, in ensuring National City Lines continued to place its insurance business with Underwriters; therefore, the income should be taxed to him.r

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Court's Reasoning

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The Tax Court reasoned that the payments to Inez Beamsley were not solely consideration for her stock in Underwriters. Instead, they were primarily intended to compensate Foster Beamsley for his influence over National City Lines' decision to maintain its insurance business with Underwriters. The court emphasized Foster Beamsley's close relationship with National's president, his executive position within

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National, and his historical role in securing National as a client of Underwriters. Even if his influence was minimal, the key was that Johnson believed in Beamsley's influence and Beamsley did nothing to correct that understanding. The court cited *Lucas v. Earl*, emphasizing that income must be taxed to the one who earns it, regardless of any anticipatory arrangements to divert it to another. The court noted, "It was this understanding that prevailed between the bargaining parties and it was on this understanding that the payments in issue came to be made. Beamsley's influence, whether real or supposed, over the placement of National's insurance was responsible for those payments.

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