19 T.C. 1027 (1953)

Income diverted to a taxpayer's relative, or received through corrupt practices like selling political influence, is taxable to the person who ultimately controls the funds or benefits from them; furthermore, intentionally concealing such income constitutes tax fraud.

Summary

Manson L. Reichert, the mayor of Evansville, Indiana, was found to have received unreported income through various schemes, including payments disguised as salary to his daughter and bribes for political favors. The Tax Court determined that these funds were taxable to Reichert, not his daughter, as he controlled the money. Additionally, because Reichert intentionally concealed these income sources, the court upheld fraud penalties and removed the statute of limitations defense for one of the tax years in question. This case illustrates the principle that income is taxed to the one who controls it, and the consequences of deliberately evading tax obligations.

Facts

Reichert served as the chairman of the Republican County Central Committee and mayor of Evansville from 1943 to 1946. He arranged for his close friend, Bartlett, to be appointed manager of the local Motor Vehicle License Bureau. Bartlett then put Reichert's daughter, Maybelle, on the payroll at $3,600 annually. Maybelle performed minimal work. Reichert also solicited "contributions" from tavern keepers and others, and received payments from a liquor company stockholder in exchange for his influence in renewing the company's liquor license. These activities were often not reported through official party channels.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Reichert's income tax for 1943-1946, along with additions for fraud. Reichert challenged these determinations in the Tax Court. The Tax Court upheld most of the Commissioner's findings, determining that Reichert had received unreported income and that a portion of the deficiency for each year was due to fraud.

Issue(s)

1. Whether payments made to Reichert's daughter were, in substance, income to Reichert.

2. Whether Reichert received unreported income from political payoffs and the sale of political influence.

3. Whether any part of the deficiency for each year was due to fraud with intent to

© 2025 SCOTUSreports.com. All rights reserved.

evade tax.

4. Whether the assessment of a deficiency for 1943 is barred by the statute of limitations.

Holding

1. No, but only partially. Some payments made to Reichert's daughter were compensation for services. However, most of the payments nominally made to Reichert's daughter were in fact income to Reichert, because they were part of an arrangement to compensate Reichert for using his influence to get Bartlett the job at the Motor Vehicle Bureau.

2. Yes, partially. Reichert received unreported income from payments related to liquor license renewal, but not from general political contributions from tavern owners and

© 2025 SCOTUSreports.com. All rights reserved.