

James J. Donohue, 16 T.C. 1085 (1951)

Compensation received for services rendered is taxable to the earner, even if they have an obligation to pay a portion of it to another party, unless they receive the compensation as a mere agent or trustee for the other party.

Summary

James J. Donohue, an actor, received compensation from MGM. He had an agreement with Gainsborough Pictures where he was obligated to pay Gainsborough a portion of his earnings. The IRS determined that the total compensation Donohue received was includible in his gross income, despite his obligation to pay a portion to Gainsborough. The Tax Court agreed, holding that Donohue earned the income under a claim of right, and the subsequent agreement with Gainsborough was a contractual obligation, not an agency or trust arrangement. Since he received the money, he was taxed on it, regardless of any later agreement to share the money. The court distinguished between receiving income in one's own right versus receiving it as a mere agent or trustee for another.

Facts

James J. Donohue entered into an agreement with MGM for his acting services. He also had an agreement with Gainsborough Pictures (