Compania General de Tabacos de Filipinas v. Collector of Internal Revenue, 279 U.S. 306 (1929)

The source of income from the sale of goods, for the purpose of determining tax liability, is determined by the place where title to the goods passes from the seller to the buyer.

Summary

The case involved a dispute over the source of income for tax purposes. The petitioner, a Philippine corporation, argued that its income from selling tobacco should be considered foreign-sourced because the tobacco was produced and sold abroad. The respondent, the Collector of Internal Revenue, asserted that the income was domestic-sourced because the contracts of sale were made and payments were received in the United States. The Supreme Court sided with the respondent, holding that the source of income is determined by where the sale occurs, and that the sale occurs where title to the goods passes. In this case, the Court found that title passed in the United States, making the income domestic-sourced.

Facts

The petitioner, Compania General de Tabacos de Filipinas, was a corporation organized and existing under the laws of the Philippine Islands. The company purchased tobacco in the Philippine Islands, shipped it to the United States, and then sold the tobacco to various purchasers. The contracts for the sale of tobacco were made in the United States, and the payments were also received in the United States.

Procedural History

The Commissioner of Internal Revenue determined that the income derived from the sale of tobacco was from sources within the United States. The petitioner appealed this determination to the Board of Tax Appeals (now the Tax Court). The Board upheld the Commissioner’s ruling. The case was then brought before the Supreme Court on certiorari.

Issue(s)

Whether the income derived by the petitioner from the sale of tobacco should be considered from sources within or without the United States for federal income tax purposes.

Holding

No, the income was from sources within the United States because the sales, for tax purposes, occurred in the United States because title passed to the purchasers in the U.S.

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Court’s Reasoning

The Court relied on the established principle that the place where the sale occurs is determined by where the title to the goods passes from the seller to the buyer. The Court considered the question of ‘the source of income’ to be a problem related to the law of sales rather than a question of taxation. The Court found that the contracts of sale were made in the United States and that the payments were made in the United States. This, the Court reasoned, was where the sales occurred, thus the income was derived from sources within the United States. The Court also emphasized the importance of the legal concept of the place of sale. The Court noted that the legislative history of the revenue acts supported the Commissioner’s interpretation that the source of income should be determined by the place where title passed.

Practical Implications

This case is a foundational precedent for determining the source of income from sales of goods for U.S. tax purposes. It highlights the importance of analyzing the contractual and operational aspects of a sale to pinpoint where title transfer occurs. This case establishes the “title passage” test as the key factor, meaning that the tax liability depends on where title transfers, regardless of where other activities related to the sale, such as the manufacturing or negotiation of the sale, take place. This ruling significantly affects businesses engaged in international trade, as it determines where their income is sourced and, therefore, where they are subject to taxation.

This precedent is still relevant in modern tax law. Practitioners must meticulously examine sales contracts and shipping documents to determine where title transfers. Businesses involved in international transactions must carefully structure their sales processes to ensure that the source of their income aligns with their tax planning objectives.

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