10 T.C. 150 (1948)

The court will respect the corporate form and the tax liability will fall on the corporation, and not the agents or officers, unless the corporate structure is a sham or the agents/officers acted in their individual capacity.

Summary

The case involves a dispute over tax liability stemming from a bargain purchase of stock. The Commissioner of Internal Revenue initially sought to tax individual agents of a corporation, arguing they had earned compensatory income. The court disagreed, holding that the agents acted solely on behalf of the corporation and, therefore, the corporation, not the agents, was liable for any tax. Additionally, the court considered whether a foreign corporation had engaged in a trade or business in the United States and whether a tax treaty with Canada shielded it from U.S. taxation. The court determined the foreign corporation was not engaged in trade or business and was protected by the treaty because it lacked a "permanent establishment" in the U.S.

Facts

Eaton and Daley, acting as agents for Otis & Co. and Premium, were involved in a transaction to purchase stock in Steep Rock. The Commissioner contended that Eaton and Daley earned compensatory income for their services and were thus individually liable for taxes related to a bargain purchase of the stock. Premium, a Canadian corporation, was also involved. The IRS sought to tax Premium for the income earned from the bargain purchase of the stock, arguing Premium was engaged in trade or business within the United States.

Procedural History

The case was heard in the U.S. Tax Court. The Commissioner initially determined that the individual agents were liable for taxes. The Commissioner then sought to hold the corporate entity (Premium) liable. The Tax Court examined the facts and determined who was actually liable for the tax on the income.

Issue(s)

1. Whether the individual agents (Eaton and Daley) were liable for income tax on the profits from the purchase of Steep Rock stock, or whether the corporate entity was liable.

2. Whether Premium, a Canadian corporation, was engaged in trade or business in the United States.

3. Whether the tax treaty between the U.S. and Canada protected Premium from U.S. taxation.

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Holding

1. No, because Eaton and Daley acted solely as agents for the corporation throughout the transaction.

2. No, because the evidence showed Premium was not engaged in trade or business in the United States.

3. Yes, because Premium did not have a "permanent establishment" in the United States, thus falling under the protection of the tax treaty.

Court's Reasoning

The court focused on the roles of Eaton and Daley in relation to the corporation. The court found that Eaton and Daley acted as agents for Otis and Premium, and not in their individual capacities. The court stated that "Where a corporation acting through its officers or agents carries a business transaction to a successful and profitable fruition, prima facie the corporation earns the profit." The court emphasized that tax liability generally adheres to the corporate structure unless special circumstances justify piercing the corporate veil. The court found that the individual agents were not acting in their personal capacity, and therefore were not liable for the taxes. The court cited multiple cases including *Lucas v. Earl*, *Helvering v. Horst* and *Helvering v. Eubank* to establish the proper tax liability.

The court then considered whether Premium was subject to U.S. taxation. The court reviewed Section 231(b) of the Internal Revenue Code of 1939, which required a foreign corporation to be

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