31 T.C. 510 (1958)

A taxpayer who chooses to operate through a corporation must accept the tax consequences of that choice and cannot later disavow the corporate form to obtain tax benefits.

Summary

In *Wattley v. Commissioner*, the U.S. Tax Court addressed whether a taxpayer could disregard the corporate form to claim benefits under Section 107 of the Internal Revenue Code of 1939, which provided for the spreading of income over a period of service exceeding 36 months. The taxpayer, Ralph B. Wattley, was the sole shareholder of R. B. Wattley Co. Inc. The court held that the taxpayer was not entitled to the benefit of Section 107 because he received income as a representative of his wholly owned corporation, and that he could not disregard the separate existence of the corporation to claim the tax benefit. The court emphasized that the taxpayer had chosen to conduct his real estate brokerage business through a corporation, and therefore, he must accept the tax disadvantages of this choice. The court also determined that the commission did not represent at least 80 per centum of the total compensation for personal services.

Facts

Ralph B. Wattley was the sole shareholder and officer of R. B. Wattley Co. Inc., a corporation formed to conduct a real estate brokerage business. Wattley personally performed services on behalf of the corporation, including negotiating a lease for a client. In 1951, the corporation received a commission for Wattley's services, which was then distributed to him. Wattley claimed that the commission should be taxed under Section 107 of the Internal Revenue Code of 1939, allowing him to spread the income over the period during which he provided services. However, Wattley did not receive 80% of the total compensation for personal services over the period covered.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wattley's income tax for 1951, disallowing the Section 107 treatment. Wattley petitioned the U.S. Tax Court, disputing the deficiency and asserting that he was entitled to spread the commission income. The Tax Court ruled in favor of the Commissioner, holding that Wattley could not disregard the corporate form and that Section 107 was inapplicable.

Issue(s)

1. Whether the corporate entity of R. B. Wattley Co. Inc. should be disregarded for tax purposes, allowing Wattley to claim the commission income as his own personal income.

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2. Whether the income received by Wattley qualified for tax treatment under Section 107 of the Internal Revenue Code of 1939, specifically regarding whether 80% of the total compensation for personal services was received in the taxable year.

Holding

1. No, because Wattley chose to operate through a corporation, he was bound by the corporate form.

2. No, because the income was not at least 80% of Wattley's personal service income over the specified period.

Court's Reasoning

The court first addressed Wattley's argument that R. B. Wattley Co. Inc. was a mere

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