Moline Properties, Inc. v. Commissioner, 319 U.S. 436 (1943)

A corporation, even if wholly owned, is generally treated as a separate legal entity for federal income tax purposes if it engages in some business activity or its creation has a bona fide purpose, even if that activity is minimal.

Summary

This case establishes the principle that a corporation's separate existence from its shareholders should generally be respected for federal tax purposes. The Court held that a corporation formed to hold title to real estate and collect rent, even if the corporation's activities were minimal and its sole shareholder directed its actions, was a separate taxable entity. The ruling emphasized that the corporation's business function, no matter how simple, was the key factor. This case provided a clear standard for when the corporate veil can be pierced, impacting how businesses are structured and taxed, particularly for closely held corporations.

Facts

Moline Properties, Inc. (the taxpayer), was formed by the sole shareholder to hold title to certain real estate. The corporation collected rents, paid taxes, and maintained a bank account. The shareholder directed all of the corporation's actions. The Commissioner of Internal Revenue sought to tax the income generated by the property directly to the shareholder, arguing that the corporation was merely a "sham" created for the shareholder's convenience. The Tax Court and the Sixth Circuit agreed with the Commissioner.

Procedural History

The Commissioner of Internal Revenue assessed a tax deficiency against the shareholder, claiming the corporation was a sham. The Tax Court agreed with the Commissioner. The Sixth Circuit Court of Appeals affirmed the Tax Court's decision. The Supreme Court granted certiorari.

Issue(s)

Whether a corporation, wholly owned by a single individual, which holds title to real property, collects rents, and pays taxes, should be treated as a separate taxable entity for federal income tax purposes, even if the corporation's activities are minimal and its sole shareholder directs its actions?

Holding

Yes, because the corporation engaged in business activity.

Court's Reasoning

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The Supreme Court reversed the Sixth Circuit, holding that a corporation is a separate taxable entity if it conducts business activities, regardless of the amount of business activity. The Court referenced the general rule that a corporation and its stockholders are distinct legal entities. The Court held that Moline Properties, Inc. was a separate entity because it was created for a business purpose and engaged in business activity. The Court emphasized that the corporation collected rents, paid taxes, and maintained a bank account, even if the activities were primarily directed by the shareholder. The Court specifically rejected the notion that the corporation's activities were too minimal to establish a separate taxable existence. The Court reasoned that to be considered a separate entity for tax purposes, a corporation must engage in some business activity or its creation must have a bona fide purpose, even if that activity is minimal. The Court stated: "The doctrine of corporate entity cannot be disregarded where the purpose is the equivalent of business activity or the purpose for which the corporation was organized."

Practical Implications

This case has significantly influenced the law regarding the tax treatment of corporations. It established that corporations generally have a separate legal identity, which separates their tax liability from that of their owners. This holding encourages the use of the corporate form for business operations. Attorneys advising clients on business structures must consider Moline Properties when forming corporations. Specifically, the case emphasizes that engaging in even minimal business activity or having a bona fide purpose is sufficient to maintain the separate corporate identity, which has substantial implications for liability and tax planning.

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