***C. P. I. v. Commissioner, 77 T. C. 776 (1981)***

Income must be attributed to individuals, not corporations, when corporate activities are not legitimate business operations.

**Summary**

In C. P. I. v. Commissioner, the Tax Court ruled that commissions from insurance sales should be taxed to individuals, not the corporation C. P. I. , due to the lack of legitimate corporate activity. Morrison and Herrle, who operated through C. P. I. , were not authorized to sell insurance under the corporation's name. The court found that the income was derived from the individual efforts of Morrison and Herrle, not from C. P. I. 's business operations, leading to the conclusion that the commissions were taxable to them personally.

**Facts**

Morrison and Herrle, through their corporation C. P. I. , attempted to claim commissions from insurance sales as corporate income. Herrle, licensed to sell insurance, sold policies to Morrison Oil Co. and clients referred by Morrison. These commissions were paid to C. P. I. , but the corporation was neither licensed nor authorized to sell insurance. C. P. I. had no employment records, did not file employment reports, and incurred no expenses related to the insurance business. The insurance sales were conducted prior to C. P. I. 's purported entry into the insurance business.

**Procedural History**

The Commissioner of Internal Revenue challenged the allocation of the insurance commissions to C. P. I. , asserting that they should be taxed to Morrison and Herrle individually. The case was brought before the Tax Court, which heard arguments from both the petitioners (C. P. I. ) and the respondent (Commissioner).

**Issue(s)**

1. Whether the commissions from insurance sales should be taxed as income to C. P. I. or to Morrison and Herrle individually.

**Holding**

1. No, because the commissions were derived from the individual efforts of Morrison and Herrle, not from legitimate corporate activities of C. P. I.

**Court's Reasoning**

The court applied the principle that income should be attributed to the entity that earned it through legitimate business operations. It found that C. P. I. was not

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licensed or authorized to sell insurance and did not engage in any activities related to the insurance business. The court emphasized that the commissions were earned by Herrle, who was the licensed agent, and Morrison, who referred clients. The court rejected the petitioners' argument that the commissions were corporate income, citing the lack of corporate involvement in the insurance sales. The court also noted the absence of any corporate employment records or expenses related to the insurance business, further supporting its decision to attribute the income to the individuals.

**Practical Implications**

This decision underscores the importance of establishing legitimate corporate activities for income to be attributed to a corporation. Legal practitioners should ensure that corporate entities are properly licensed and engaged in the relevant business activities to avoid similar tax disputes. Businesses must maintain clear records of corporate involvement in income-generating activities. This case also highlights the risks of using corporations to funnel personal income, potentially leading to tax reallocations to individuals. Subsequent cases have referenced C. P. I. v. Commissioner in disputes over income attribution, emphasizing the need for genuine corporate operations.

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