54 T.C. 758 (1970)

Income from personal services is taxable to the individual who performs the services, even if paid to a corporation controlled by that individual, if the corporation is merely a conduit and lacks a legitimate business purpose for earning the income.

Summary

Jack Morrison, a shareholder in Morrison Oil Co., formed Century Properties, Inc. (CPI) with Joseph Herrle, a licensed insurance agent. Morrison referred insurance business from Morrison Oil to Herrle, who paid commissions to CPI, owned equally by Morrison and Herrle. Morrison argued that the commissions were CPI's income, not his personal income. The Tax Court held that Morrison was taxable on half of the commissions. The court reasoned that CPI did not earn the income; the income was generated by Morrison's referrals and Herrle's insurance sales, not by any substantial business activity conducted by CPI. CPI was deemed a mere conduit and lacked a legitimate business purpose regarding the insurance commissions.

Facts

Jack Morrison acquired 50% of the stock of Century Properties, Inc. (CPI) in 1961; Joseph Herrle owned the other 50%. Herrle was a licensed insurance agent with his own insurance agency. CPI was initially not authorized or licensed to conduct insurance business. Morrison was president of Morrison Oil Co. Morrison referred potential insurance clients, including Morrison Oil Co., to Herrle. Herrle secured the insurance business and paid the commissions to CPI, after deducting premiums and retaining volume bonuses. CPI's tangible assets were minimal, consisting mainly of real property and an airplane. CPI had no employees and incurred no expenses related to procuring insurance business. Neither Morrison nor Herrle received direct cash distributions from CPI during the years in question.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Morrison's income taxes for 1962-1964, arguing constructive receipt of income. Morrison petitioned the Tax Court to dispute the deficiency.

Issue(s)

1. Whether insurance commissions paid to CPI were constructively received by Morrison and taxable as his individual income.

Holding

1. Yes, because the commissions were attributable to the income-generating activities of Morrison and Herrle as individuals, not to any substantial business

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activity of CPI.

Court's Reasoning

The Tax Court reasoned that CPI did not earn the insurance commissions. Herrle, as a licensed agent, and Morrison, through his referrals, were the actual income generators. CPI was not licensed or authorized for insurance business during the relevant years and had no established relationships with insurance underwriters. The court emphasized that "the petitioner has failed to establish that the services, on account of which the payments were made to C.P.I., resulted from the corporate efforts of C.P.I. rather than the individual efforts of the petitioner and Herrle." The court found no evidence that CPI directed or controlled the insurance solicitation or sales, nor did clients perceive CPI as their insurance agent. Referencing precedent like *Jerome J. Roubik, 53 T.C. 365 (1969)*, the court concluded that CPI was merely a conduit for the commissions, and the income was properly taxable to Morrison and Herrle individually, based on their respective contributions to earning it.

Practical Implications

Morrison v. Commissioner reinforces the assignment of income doctrine, preventing taxpayers from avoiding personal income tax by directing income to controlled entities that do not genuinely earn it. It highlights that forming a corporation does not automatically shift tax liability for income derived from personal services. To be recognized as the earner of income, a corporation must demonstrate actual business activity and purpose beyond merely receiving payments generated by its owners' individual efforts. This case is crucial for understanding the limitations of using closely held corporations for income splitting and emphasizes the importance of demonstrating a legitimate business purpose and corporate activity to justify corporate income recognition in similar scenarios. Subsequent cases have applied *Morrison* to scrutinize arrangements where individuals attempt to assign personal service income to shell corporations.

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