Boyer v. Commissioner, 58 T. C. 316 (1972)

The Tax Court can treat a controlled corporation as an alter ego of its shareholders when it is used to manipulate income and avoid taxes, impacting the tax treatment of real estate transactions and rental income allocations.

Summary

In Boyer v. Commissioner, the Tax Court ruled that profits from the sale of land by individuals to their closely controlled corporation should be treated as ordinary income, not capital gains, as the corporation was deemed an alter ego used to develop and sell the property. The court also upheld the Commissioner's allocation of rental income under Section 482 from a lessee corporation to its lessor partnership, both controlled by the same individuals, to prevent tax evasion. This decision underscores the IRS's authority to scrutinize transactions between related parties to ensure proper income reflection and highlights the risks of using corporate structures to manipulate tax liabilities.

Facts

Robert Boyer and Charles Brooks, along with B Investments, formed B Developers, Inc. , each holding equal shares. In 1966, Boyer and Brooks purchased land, intending to develop and sell it as residential lots. They sold two tracts to B Developers at prices that resulted in losses for the corporation upon further development and sale. Additionally, a partnership composed of Boyer, Brooks, and B Investments leased the Fluhrer Building to B Developers for $15,000 annually, but B Developers did not pay the rent in 1966, paid partial rent in 1967, and paid property taxes in 1968. The Commissioner reallocated the unpaid rent to the partnership under Section 482.

Procedural History

The Commissioner determined deficiencies in the petitioners' income taxes for 1966-1968, leading to the case being brought before the United States Tax Court. The court consolidated the cases of Boyer, Brooks, and B Investments due to common factual and legal issues. The Commissioner conceded one issue at trial, leaving two primary issues for decision: the tax treatment of gains from land sales and the allocation of rental income.

Issue(s)

1. Whether the income realized by Boyer and Brooks from the 1968 sale of a 9. 96-acre tract of land to B Developers should be taxed as long-term capital gain or as ordinary income.
2. Whether the Commissioner may allocate rental income due but unpaid from B Developers to the Brooks, Boyer, and B Investments partnership under Section 482 of the 1954 Internal Revenue Code.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. No, because Boyer and Brooks used B Developers as an alter ego to develop and sell the land, making them real estate dealers whose profits are taxable as ordinary income.
2. Yes, because the Commissioner's allocation was necessary to prevent tax evasion and to clearly reflect the income of the related parties, given the control and manipulation of income between B Developers and the partnership.

Court's Reasoning

The court found that Boyer and Brooks intended to develop and sell the land from the outset, using B Developers to achieve this aim while attempting to convert ordinary income into capital gains. The court rejected the petitioners' claim of an arm's-length transaction, citing the absence of evidence supporting B Investments' alleged veto power and the lack of a formal sales contract for the second tract. The court's decision was influenced by the principle that the activities of a controlled corporation can be imputed to its shareholders if used as an agent or alter ego.

For the rental income issue, the court upheld the Commissioner's allocation under Section 482, noting that the Commissioner has broad discretion to prevent tax evasion through income shifting between related parties. The court found that B Developers had sufficient rental income to pay the partnership rent, and the failure to do so was a manipulation of income to reduce tax liability.

The court emphasized that the burden is on the taxpayer to prove the existence of separate bona fide interests when closely related parties are involved in transactions. The court also considered policy considerations, such as preventing tax avoidance through the use of corporate structures.

Practical Implications

This decision has significant implications for how transactions between closely controlled entities should be analyzed for tax purposes. Attorneys and tax professionals must be cautious when structuring transactions between related parties, as the IRS may look through corporate forms to the substance of the arrangement. The case serves as a reminder of the importance of maintaining arm's-length transactions and the potential for the IRS to recharacterize income when it believes tax evasion is occurring.

In practice, this decision may lead to increased scrutiny of real estate transactions and rental agreements involving related parties. It also highlights the need for clear documentation and evidence of independent business purposes to support the tax treatment of such transactions. Subsequent cases, such as *Kaltreider v. Commissioner* and *Pointer v. Commissioner*, have applied similar principles to pierce the corporate veil for tax purposes when related parties engage in transactions that

© 2025 SCOTUSreports.com. All rights reserved.

appear designed to manipulate income.

© 2025 SCOTUSreports.com. All rights reserved.