Jourdain v. Commissioner, 71 T. C. 980 (1979); 1979 U. S. Tax Ct. LEXIS 160

Compensation received by a noncompetent Indian from tribal funds derived from tribal lands is taxable as income.

Summary

Roger Jourdain, a noncompetent member of the Red Lake Band of Chippewa Indians, received compensation as chairman of the tribal council, funded from tribal receipts from reservation lands. The IRS assessed deficiencies and penalties, which Jourdain contested, arguing his income was exempt from taxation based on treaties, the U. S. Constitution, and the General Allotment Act. The Tax Court rejected these claims, holding that Jourdain's compensation was taxable income, as it was not a pro rata distribution of tribal income but payment for services rendered. The court also found Jourdain's belief in his income's tax-exempt status to be reasonable, thus waiving penalties.

Facts

Roger Jourdain, a noncompetent Indian and chairman of the Red Lake Band of Chippewa Indians, received salary payments in 1971 and 1972 from funds derived from tribal lands held in trust by the U. S. Government. These funds included royalties, leases, and interest earned while held in trust. Jourdain also received additional income from consulting and executive fees, as well as payments from the University of Minnesota and the Minnesota Department of Indian Affairs. He did not report these amounts on his federal income tax returns, asserting that his income was exempt from taxation.

Procedural History

The IRS determined deficiencies in Jourdain's income tax and imposed additions to tax under sections 6651(a) and 6653(a) for the years 1971 and 1972. Jourdain petitioned the U. S. Tax Court for a redetermination of these deficiencies and penalties. The court reviewed the case, focusing on whether Jourdain's income was taxable and whether the penalties were properly imposed.

Issue(s)

1. Whether income received by Roger Jourdain from the Red Lake Band of Chippewa Indians for services rendered as tribal chairman and other income from private sources is taxable.
2. Whether the additions to tax under sections 6651(a) and 6653(a) were properly imposed.

Holding

1. Yes, because the compensation received by Jourdain was for services rendered

and not a pro rata distribution of tribal income, making it taxable under the Internal Revenue Code.
2. No, because Jourdain's belief that his income was tax-exempt was reasonable, based on prior court decisions and the unique status of the Red Lake Band.

Court's Reasoning

The court reasoned that the Internal Revenue Code, as a general Act of Congress, applies to all individuals, including Indians, unless specifically exempted by treaty or Act of Congress. Jourdain's compensation was not a distribution of tribal income but payment for services, thus taxable. The court overruled its prior decision in *Walker v. Commissioner*, which had held similar compensation tax-exempt based on a guardian-ward relationship, finding this reasoning outdated. The court also found that neither the U. S. Constitution, the General Allotment Act, nor the Treaty of Greenville provided Jourdain with an exemption from income tax. Regarding penalties, the court found Jourdain's belief in the tax-exempt status of his income to be reasonable, based on the unique status of the Red Lake Band and prior court decisions, and thus waived the penalties.

Practical Implications

This decision clarifies that compensation received by noncompetent Indians for services rendered, even if paid from tribal funds derived from tribal lands, is subject to federal income tax. It underscores the principle that tax exemptions for Indians must be explicitly provided by treaty or Act of Congress. Practitioners should advise clients that income from tribal sources for personal services is taxable unless a specific exemption applies. The decision also highlights the importance of reasonable cause in determining the applicability of tax penalties, particularly in cases involving unique legal issues or historical court decisions.

