

## ***Kampel v. Commissioner, 72 T. C. 827 (1979)***

For the purpose of calculating earned income subject to the maximum tax rate under section 1348, a partner's guaranteed payments are included in the partner's distributive share of the partnership's net profits, limited to 30% of that share.

### **Summary**

Daniel Kampel, a partner in L. F. Rothschild & Co. , received guaranteed payments and a distributive share from the partnership. The issue was whether these guaranteed payments could be considered entirely as earned income for the purpose of the maximum tax under section 1348. The Tax Court held that, for a partnership where both services and capital are income-producing factors, guaranteed payments must be included in the partner's distributive share of net profits, and only 30% of this total could be treated as earned income. This decision was based on the interpretation of the relevant tax regulations, emphasizing that guaranteed payments are part of the partner's distributive share for tax purposes beyond sections 61(a) and 162(a).

### **Facts**

In 1973, Daniel Kampel was a partner and the manager of the Pension Fund Department at L. F. Rothschild & Co. , a partnership where both capital and services were material income-producing factors. Kampel received \$379,000 as guaranteed payments for his services and \$45,772. 26 as his distributive share of the partnership's income. He also had nonreimbursed business expenses of \$10,947. Kampel argued that his guaranteed payments should be considered earned income in full for the purpose of the maximum tax under section 1348, while the Commissioner argued that these payments should be included in his distributive share and subject to the 30% limitation.

### **Procedural History**

The Commissioner determined a deficiency in Kampel's 1973 federal income tax, leading Kampel to file a petition with the United States Tax Court. The court reviewed the case based on stipulated facts and focused on the interpretation of the relevant tax regulations concerning the treatment of guaranteed payments under section 1348.

### **Issue(s)**

1. Whether, for the purpose of the maximum tax under section 1348, a partner's earned income includes guaranteed payments in full or is limited to 30% of the partner's distributive share of the partnership's net profits, which includes guaranteed payments.

### **Holding**

1. No, because under section 1. 1348-3(a)(3)(i) of the Income Tax Regulations, a partner's earned income for the purpose of the maximum tax is limited to 30% of the partner's share of net profits, which includes any guaranteed payments received from the partnership.

### **Court's Reasoning**

The court interpreted section 1. 1348-3(a)(3)(i) of the Income Tax Regulations, which states that a partner's earned income cannot exceed 30% of their share of the partnership's net profits, including any guaranteed payments. The court found this regulation to be a reasonable interpretation of section 1348, which incorporates the definition of earned income from section 911(b). The court emphasized that guaranteed payments are treated as part of a partner's distributive share for tax purposes other than sections 61(a) and 162(a), as outlined in section 1. 707-1(c) of the regulations. The court rejected Kampel's arguments that the regulation was ambiguous or invalid, citing the legislative history of section 707(c) and the purpose of simplifying partnership accounting. The court also distinguished this case from *Carey v. United States* and *Miller v. Commissioner*, which dealt with different tax exclusions and did not involve businesses where both services and capital were income-producing factors.

### **Practical Implications**

This decision clarifies that for partnerships where both services and capital are material income-producing factors, guaranteed payments are included in the partner's distributive share for the purpose of calculating earned income under section 1348. This ruling affects how partners calculate their earned income for the maximum tax and emphasizes the importance of the 30% limitation. Practically, this means that partners in such partnerships may not benefit from the maximum tax rate on the full amount of guaranteed payments they receive. Legal practitioners advising partners should carefully consider this limitation when planning compensation structures. The decision also underscores the deference given to IRS regulations in interpreting tax statutes, impacting future cases involving similar issues.