Hoptowit v. Commissioner, 78 T. C. 137 (1982)

Income from a business operated on Native American reservation land and per diem payments for services as a tribal council member are taxable unless expressly exempted by treaty or statute.

Summary

In Hoptowit v. Commissioner, the U. S. Tax Court ruled that William Hoptowit, a noncompetent member of the Yakima Indian Nation, was taxable on income from his smokeshop business and per diem payments received for serving on the Yakima Tribal Council. The court found no treaty or statute explicitly exempting such income from federal taxation. This decision reinforced that Native American income is subject to taxation unless a clear exemption exists, impacting how similar income sources are treated in future cases and affirming the broad applicability of federal tax law.

Facts

William Hoptowit, a noncompetent member of the Yakima Indian Nation, operated a smokeshop on the Yakima Reservation, generating profits of $40,308. 10 in 1975 and $70,993. 52 in 1976. He also served as an elected member of the Yakima Tribal Council in 1976, receiving $18,000 in per diem payments for his services. Hoptowit argued that these incomes were exempt from federal taxation based on the 1855 Treaty with the Yakimas, which reserved the land for the tribe’s “exclusive use and benefit. “

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Hoptowit’s federal income taxes for 1975 and 1976. Hoptowit challenged these deficiencies in the U. S. Tax Court. The court consolidated the cases involving Hoptowit and his wife, Elaine A. Hoptowit, for the years in question. The Tax Court ultimately ruled in favor of the Commissioner regarding the taxability of Hoptowit’s smokeshop income and per diem payments.

Issue(s)

1. Whether income earned by an enrolled member of the Yakima Indian Nation from the sale of tobacco products in a smokeshop on the Yakima Reservation is subject to federal income taxation.
2. Whether amounts received in return for services performed as a member of the Yakima Tribal Council are subject to federal income taxation.

Holding

1. Yes, because the 1855 Treaty with the Yakimas does not expressly exempt such

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income from federal taxation, and the income was not derived directly from reservation land and resources.
2. Yes, because no treaty or statute exempts per diem payments for services performed as a tribal council member from federal taxation, and such payments are taxable under general tax principles.

Court's Reasoning

The Tax Court emphasized that the income of Native Americans is subject to federal taxation unless exempted by a treaty or statute. The court rejected Hoptowit's argument that the "exclusive use and benefit" language in the treaty exempted his smokeshop income, noting that the income was derived from his labor and the sale of tobacco products, not directly from the land itself. The court applied the standard from Squire v. Capoeman, which exempted income only if it was directly derived from allotted land. Similarly, the court found no exemption for the per diem payments, citing Commissioner v. Walker and Jourdain v. Commissioner, which held similar payments for tribal council services taxable. The court stressed that exemptions from taxation must be express and cannot be implied.

Practical Implications

This decision clarifies that income from businesses operated on Native American reservations and compensation for tribal governance roles are taxable unless explicitly exempted by treaty or statute. Legal practitioners should advise clients that such income sources are generally subject to federal taxation, requiring careful review of any potential exemptions. The ruling reinforces the broad reach of federal tax law and may impact the financial planning of Native American individuals and tribes. Subsequent cases, such as Fry v. United States and Critzer v. United States, have followed this principle, distinguishing between income directly derived from reservation land and that generated through other means.

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