## *Johnson v. Commissioner, 78 T. C. 882 (1982)*

Income must be taxed to the party who controls its earning, not merely to whom it is assigned.

### Summary

Charles Johnson, a professional basketball player, attempted to assign his income to a corporation, Presentaciones Musicales, S. A. (PMSA), and later EST International Ltd. (EST), under an agreement where he was to receive a monthly stipend in exchange for his services. The Tax Court held that the income from his NBA contracts was taxable to Johnson, not PMSA or EST, because he retained control over the earning of that income. The court distinguished this from cases where the corporation had a direct contract with the employer, emphasizing that the absence of such a contract between PMSA/EST and the NBA teams meant Johnson controlled the earnings.

### Facts

Charles Johnson, a professional basketball player, signed an agreement with PMSA granting them rights to his services in exchange for a monthly payment. PMSA licensed these rights to EST, which received payments directly from the San Francisco Warriors and later the Washington Bullets via assignments executed by Johnson. Despite these arrangements, Johnson continued to sign NBA Uniform Player Contracts directly with the teams, and there was no contract between the teams and PMSA or EST. Johnson reported the payments from EST as business income on his tax returns.

### Procedural History

The Commissioner of Internal Revenue determined deficiencies in Johnson's federal income tax for the years 1975, 1976, and 1977, asserting that the amounts paid by the NBA teams should be taxed to Johnson. Johnson petitioned the U. S. Tax Court, which consolidated the cases for trial, briefing, and opinion. The Tax Court ultimately ruled in favor of the Commissioner.

### Issue(s)

1. Whether the amounts paid by the NBA teams to EST for Johnson's services are taxable to Johnson or to EST under the assignment of income doctrine.

### Holding

1. Yes, because Johnson, rather than EST, controlled the earning of the income from his services as a basketball player.

### Court's Reasoning

 

The Tax Court applied the principle from *Lucas v. Earl* that income must be taxed to the person who earns it. The court found that Johnson controlled the earning of his income because he had direct employment contracts with the NBA teams, and there was no contract between the teams and PMSA/EST. The court distinguished this case from *Fox v. Commissioner* and *Laughton v. Commissioner*, where the corporations had direct contracts with the entities using the services. The court emphasized that the absence of such a contract between PMSA/EST and the NBA teams was crucial. The court also noted that the assignments of income to EST did not change the fact that Johnson controlled the earnings, as these assignments were akin to ordinary wage assignments.

### Practical Implications

This decision underscores the importance of the control element in the assignment of income doctrine, particularly in professional services contexts. It suggests that for income to be taxed to a corporation rather than an individual, the corporation must have a direct contractual relationship with the entity paying for the services. This ruling impacts how professional athletes and other service providers structure their income assignments and may influence tax planning strategies. It also highlights the need for clear contractual arrangements to establish control over income, as subsequent cases have continued to apply this principle in determining tax liability.

 