Karmun v. Commissioner, 82 T. C. 201 (1984)

Income from reindeer herd operations by Alaskan Natives is not exempt from federal income tax unless explicitly stated by statute or treaty.

Summary

In Karmun v. Commissioner, the U. S. Tax Court ruled that Alaskan Natives operating reindeer herds under the Reindeer Industry Act of 1937 were not exempt from federal income tax on their earnings. Harry and Alice Karmun, partners in a reindeer herd operation, argued their income should be tax-exempt under the Act. The court, however, found no express language in the Act or any other statute or treaty providing such an exemption. The decision emphasized that tax exemptions for Native Americans and Alaskan Natives must be clearly stated in law, and the absence of such language meant the Karmuns were subject to federal income tax on their reindeer herd profits.

Facts

Harry H. Karmun and Alice G. Karmun, residents of Deering, Alaska, operated a reindeer herd partnership named Alfred K. Karmun & Son. They grazed their approximately 2,000 reindeer on public land under permits issued by the Secretary of the Interior pursuant to the Reindeer Industry Act of 1937. The Act aimed to provide a means of subsistence for Eskimos and other Alaskan Natives by regulating the reindeer industry. The Karmuns claimed that their income from the sale of reindeer and reindeer products should be exempt from federal income tax under this Act.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Karmuns' federal income taxes for 1977 and 1978, totaling $1,931 and $8,688. 83, respectively. The Karmuns petitioned the U. S. Tax Court for a redetermination of these deficiencies, arguing that their income was exempt under the Reindeer Industry Act. The Tax Court, after considering the arguments and reviewing the applicable law, decided in favor of the Commissioner.

Issue(s)

1. Whether the Reindeer Industry Act of 1937 exempts Alaskan Native reindeer herd operators from federal income taxes on income derived from the sale of reindeer and reindeer products.

Holding

1. No, because the Reindeer Industry Act of 1937 does not contain any language explicitly exempting such income from federal income taxes, and no other statute or

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treaty provides such an exemption.

Court’s Reasoning

The court relied on established principles that income from Native Americans and Alaskan Natives is subject to federal income tax unless a specific exemption is found in a treaty or act of Congress. The Reindeer Industry Act, while providing for the regulation and management of reindeer herds by Alaskan Natives, did not include any language regarding a tax exemption. The court distinguished this case from Squire v. Capoeman, where income from restricted property was exempted due to explicit statutory language. Here, the purpose of the Reindeer Act was to ensure a food supply for Alaskan Natives, not to benefit individual herd owners by exempting their income from taxation. The court emphasized that tax exemptions must be clearly expressed and cannot be implied, citing cases like United States v. Anderson and Choteau v. Burnet to support this principle.

Practical Implications

This decision clarifies that Alaskan Natives operating under the Reindeer Industry Act must report and pay federal income taxes on their earnings from reindeer herd operations unless a specific exemption is legislated. Legal practitioners should advise clients in similar situations that general welfare or regulatory acts do not automatically confer tax exemptions. The ruling underscores the need for explicit statutory language for tax exemptions, impacting how similar cases involving Native American and Alaskan Native income are analyzed. It also highlights the broader policy of treating Native individuals as taxpayers unless otherwise specified by law, affecting how tax authorities approach such cases and potentially influencing legislative efforts to address tax exemptions for Native communities.

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