Estate of Lucille A. Peterson, Deceased, Wilfred M. Peterson, Administrator, and Wilfred M. Peterson, Petitioners v. Commissioner of Internal Revenue, Respondent, 90 T. C. 249 (1988); 1988 U. S. Tax Ct. LEXIS 16; 90 T. C. No. 18

Income from commercial fishing by Native Americans under treaty rights is not exempt from federal income taxation unless the treaty specifically exempts such income.

Summary

Wilfred Peterson, a member of the Chippewa tribe, sought to exclude his commercial fishing income from federal taxation, claiming protection under treaties between the Chippewa and the United States. The U. S. Tax Court ruled that the treaties did not contain explicit language exempting such income from taxation. The court emphasized that for income to be tax-exempt, there must be express language in a treaty or statute. The court also distinguished between individual and tribal rights, noting that Peterson's fishing rights were tribal, not individually allocated, thus not qualifying for an exemption based on prior case law.

Facts

Wilfred Peterson, a Chippewa Indian, earned income from commercial fishing under permits issued by the Red Cliff Band of Lake Superior Chippewa Indians. Peterson sold the fish he caught to entities outside the treaty-protected territory. The treaties in question, executed between the Chippewa and the U. S. in the 19th century, guaranteed the right to fish commercially. Peterson contended that this income should be exempt from federal income taxation due to the treaty rights.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Peterson's federal income tax for the years 1980, 1981, and 1982. Peterson and the Estate of Lucille A. Peterson filed a petition with the U. S. Tax Court challenging these deficiencies. The sole issue before the court was whether Peterson's fishing income was exempt from federal income tax under the treaties. The court ruled in favor of the Commissioner, holding that the income was taxable.

Issue(s)

1. Whether income derived from commercial fishing by a Chippewa Indian, under the rights reserved by treaties with the United States, is exempt from federal income taxation?

Holding

1. No, because the treaties do not contain specific language exempting such income

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from federal income taxation, and the fishing rights are held tribally rather than individually.

Court’s Reasoning

The court applied two rules of treaty interpretation: treaties should be understood as the Indians would have naturally understood them, and ambiguities should be resolved in favor of the Indians. However, the court found no express language in the treaties exempting fishing income from taxation. The court referenced *Squire v. Capoeman*, which stated that Indians are subject to income taxes unless exempted by treaty or statute. The court also distinguished between individual and tribal rights, noting that Peterson’s fishing rights were tribal, not individually allocated, thus not qualifying for an exemption under *Earl v. Commissioner*. The court concluded that the treaties guaranteed a means of livelihood but not an exemption from taxation on the income derived from that livelihood.

Practical Implications

This decision clarifies that income from treaty-protected activities is taxable unless the treaty explicitly states otherwise. Legal practitioners must carefully review treaty language for any express tax exemptions. For Native American tribes and individuals, this ruling may influence how they structure their commercial activities to minimize tax liabilities. It also underscores the importance of distinguishing between individual and tribal rights in tax law. Subsequent cases have cited this ruling when addressing similar issues of tax exemptions based on treaty rights.

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