

## IMPORTANT COURT CASES - TAX DOCTRINES

The following are significant cases, mostly from the Supreme Court, that stand for a tax doctrine that may not necessarily be provided for in the IRC. Find a case of interest to you AND sign up to use it for your oral presentation and a few other assignments (see instructions in the course syllabus).

### Character of income:

*Arrowsmith v Comm'r*

344 US 6 (1952),

character of income - in order to determine whether an expenditure or recovery is an ordinary or capital transaction, all events leading up to the expenditure or recovery must be reviewed. Note that this case is referred to in §1.338-7(e) Ex (1) and (2).

### *Corn Products*

350 US 46 (1955)

capital vs ordinary - before being greatly limited by the *Arkansas Best* decision, basically held that there was a "sixth" category of assets excluded from the capital asset definition of IRC §1221 (that was years ago when there were only five types of assets listed at §1221 rather than eight). This sixth category included any asset owned for a predominant business purpose. The case is still important despite its clarification by the Supreme Court in *Arkansas Best*.

### *Arkansas Best*

485 US 212 (1988)

Explains how §1221 on the definition of a capital asset is to applied.

### *Walter M. Hort v Comm'r*

313 US 28 (1941)

lease cancellation payments received by lessor are ordinary income

### Tax Benefit Rule:

*Hillsboro National Bank*

460 US 370 (1983)

### *Bliss Dairy*

460 US 370 (1983)

NOTE - *Hillsboro* and *Bliss Dairy* are companion cases. Just discuss the facts for the one you have chosen, not both.

### Substance over form and step-transaction:

*Gregory v Helvering*

293 US 465 (1935)

### *Court Holdings*

324 US 331 (1945)

*Commissioner v. Danielson* – note, not a S Ct case, but an often cited rule  
378 F2d 771 (3<sup>rd</sup> Cir. 1067)

How the court might handle a situation where parties to a transaction disagree as to how it should be judged

*Minnesota Tea Co v. Helvering*

302 US 609 (1938)

step-transaction doctrine - interrelated though distinct steps in an integrated transaction may not necessarily be considered independently of the overall transaction.

Duty of consistency:

*Beltzer v. U.S.*

33 AFTR 2d 74-1173, 495 F.2d 211, 74-1 USTC ¶9373 c

Definition of income:

*Comm'r v Glenshaw Glass*

348 US 426 (1955)

taxation of punitive damages in nonpersonal injury case.

*Eisner v Macomber*

252 US 189 (1920)

Income is something derived from labor or capital or both.

**DO NOT** select this case - your professor uses it as a demo (see the brief of this case on the course website)!

Definition of a trade or business:

*Groetzinger*

480 US 23 (1986)

held that gambler's activities rose to level of constituting a trade or business

Treatment of personal legal fees:

*US v Gilmore* **and** *US v Patrick* (2 separate cases on same issue - chose one - one student only)

372 US 39 (1963) and 372 US 53 (1963)

"origin of the claim" test

Assignment of Income:

*Lucas v Earl*

281 US 111 (1930)

"fruit of the tree doctrine" - income should be taxed to the person who earned it.

**AND** (do both *Lucas v Earl* and *Helvering v Horst* - they are related and short)

*Helvering v Horst*

311 US 112 (1940)

assignment of the right to receive future income, without an accompanying transfer of the underlying asset will no shift taxability of the income to the transferee.

Allowance of deductions

*New Colonial Ice v Comm'r*

292 US 435 (1934)

"legislative grace"

*Comm'r. v. Heining*

320 US 467 (1943)

Deductions and public policy

*Indopco v Comm'r*

112 S Ct 1039 (1992)

when an expenditure must be capitalized under §263 rather than currently expensed under §162.

Documentation

*Cohan v. Comm'r*, 39 F.2d 540 (2nd Cir. 1930) [not a Supreme Court case]

Role of agreement between parties

*Danielson*, 378 F.2d 771 (3rd Cir. 1967); cert denied 389 US 858 (1967)

Agency determination:

*Bollinger*

485 US 340 (1988)

*Moline Properties*

319 US 436 (1943)

when is a taxpayer acting as an agent for another versus acting for his own benefit

Debt and Property Transactions:

*Tufts v Comm'r*

461 US 300 (1983)

*Crane v Comm'r*

331 US 1 (1947)

Debt versus Equity

*Fin Hay Realty Co. v. US*

398 F.2d 694 (3rd Cir. 1968)

Determination of existence of a partnership:

*Culbertson*

337 US 733

definition of partnership - "intent" to form a partnership

Property and "exchange":

*Cottage Savings*

499 US 554 (1991)

Accounting Methods/GAAP:

*Thor Power Tool*

439 US 522 (1979)

GAAP v tax accounting rules

Statute of limitations §6511:

*U.S. v. Brockamp*

519 US 347 (1996)

Accountant/client privilege and 5th amendment privilege:

*Couch v U.S.*

409 US 322 (1973)

*Young & Co.*

465 US 805 (1984)

Reasonable cause determination:

*U.S. v Boyle*

469 US 241 (1985)

Definition of a gift:

*Duberstein*

363 US 278 (1961)

There are two cases combined here; just address the Duberstein/Cadillac one.

Retroactivity of tax law changes:

*U.S. v Darusmont*

449 US 292 (1981)

*U.S. v. Carlton*

512 US 26 (1994)

State Tax Cases: [Note: See your instructor about how to find citing cases for the following cases because there are not included in the RIA or CCH Citator (the citator only covers federal tax cases).]

*Complete Auto Transit v. Brady*, 430 U.S. 274 (1977) – nexus and commerce clause

*Quill v. North Dakota*, 504 U.S. 298 (1992) - nexus for sales and use tax.

*Fulton Corp. v. Faulkner*, 516 U.S. 325 (1996) - interstate versus intrastate commerce