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U.S. Tax Court: Indian tribe not liable for employment taxes of corporate division

The U.S. Tax Court today issued an opinion concluding that an Indian tribe was not liable for the employment tax liabilities of its corporate division.

The case is: *Blue Lake Rancheria Economic Development Corp. v. Commissioner*, 152 T.C. No. 5 (March 6, 2019). Read the Tax Court's [opinion](#) [PDF 193 KB]

Summary

The Tax Court briefly summarized the facts in this case as follows:

- A federally recognized Indian tribe held a charter issued by the Department of Interior pursuant to the Indian Reorganization Act.
- A corporate division of the Indian tribe failed to pay employment taxes generated from the business operations conducted by the corporate division.
- The IRS initiated collection actions against the Indian tribe and the tribe's corporate division for the unpaid employment taxes.
- The tribe's charter allowed it to create subdivisions for the purpose of legally segregating the assets and liabilities of discrete business endeavors. The IRS asserted that the Interior Department lacked authority to grant this power to the tribe because the grant was contrary to established state corporate law principles.
- The Indian tribe asserted that the corporate division was a legally separate division permitted by its federal charter and that the IRS was precluded from collecting the corporate division's employment tax liabilities from the tribe.

The Tax Court held that the charter properly allowed the Indian tribe to create corporate divisions whose assets and liabilities were distinct from those of the tribe for federal tax purposes. The court

also found that the corporate division in this case acted as a legally distinct division of the tribe; and therefore, the IRS was precluded from collecting the employment tax liabilities of the corporate division from the tribe. The Tax Court concluded that the corporate division was liable for the employment taxes.

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