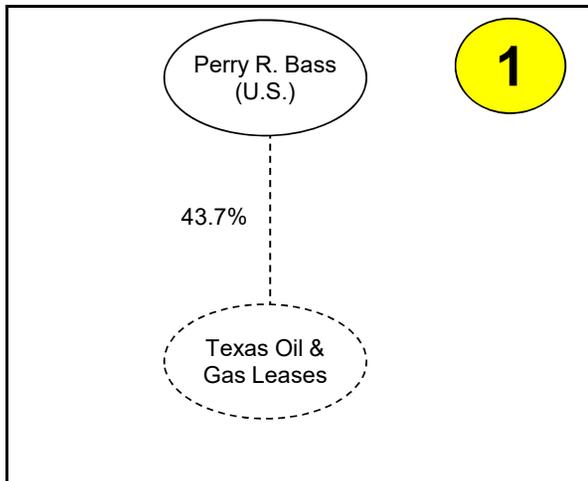
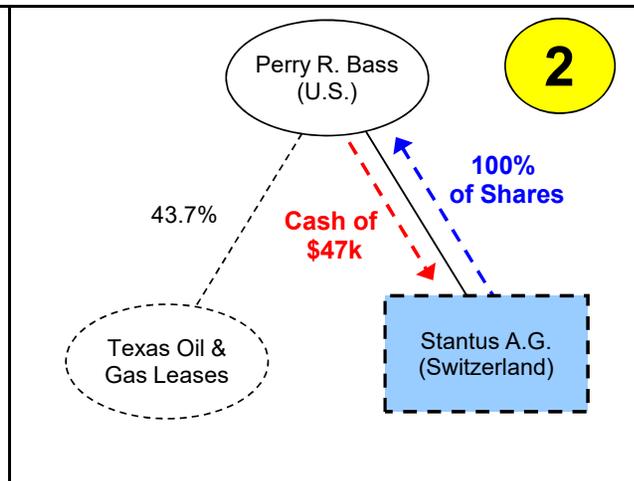


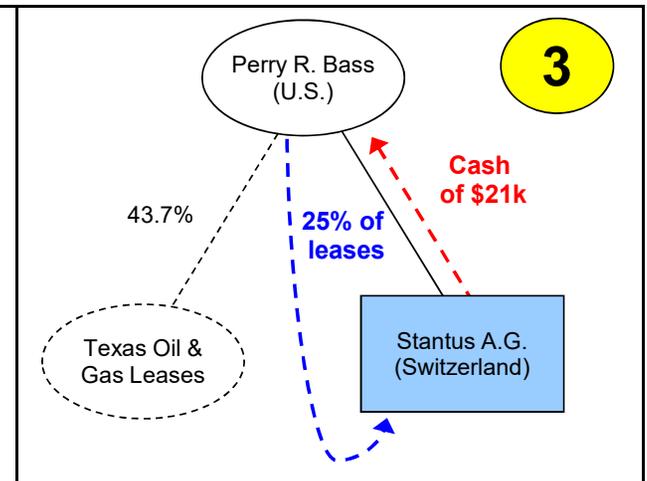
Initial Structure



Formation of SwissCo



Sale of 25% of O&G Leases



In 1960, the taxpayer established a Swiss corporation, Stantus A.G., and sold to it an undivided 25 percent of an undivided 43.7% working interest in oil and gas leases. Stantus reported the income from its interest on its Swiss and United States tax returns, but claimed exemption from U.S. taxes under the Swiss-U.S. Income Tax Treaty. The sole issue was whether Stantus was to be disregarded for tax purposes so that the income and losses of the corporation constitute the income and losses of petitioner in the years 1961-63, inclusive. In holding that Stantus should be respected as a separate entity, the Tax Court stated the following (citations omitted):

It cannot be disputed that Stantus possessed the “salient features of corporate organization.” It was duly organized according to the laws of Switzerland. The “Statuten,” or articles of incorporation, provide for perpetual existence, with centralized management in the board of directors. It issued stock, and paid the Swiss stamp tax thereon. The corporation maintained records comparable to a minute book, and journals reflecting income and expenditures. The management rendered reports to the stockholders, and its financial statements were the subject of independent audits.

Stantus not only looked like a viable corporation, it also acted like a viable corporation. It purchased and held title to working interests in oil and gas leaseholds; assumed and paid its proportionate share of the obligations under the operating agreement covering such leaseholds; executed division orders for the disposition of production income; signed contracts relating to the management of its producing properties; collected income and deposited it in a bank account; paid expenses incurred in connection with its activities; and invested excess funds in securities. Stantus filed Swiss federal and cantonal tax returns and paid the tax disclosed thereon, and filed United States income tax returns. All of this constitutes substantive business activity. * * *

Long ago, the Supreme Court held that when a corporation carries on business activity the fact that the owner retains direction of its affairs down to the minutest detail makes no difference tax-wise, observing that “Undoubtedly the great majority of corporations owned by sole stockholders are ‘dummies’ in the sense that their policies and day-to-day activities are determined not as decisions of the corporation but by their owners acting individually.”

Ending Point

