Camloc Fastener Co. v. Commissioner, 10 T.C. 108 (1948)

Settlement payments made to resolve a lawsuit arising from the breach of an exclusive sales contract are deductible as ordinary and necessary business expenses if the underlying contract did not convey a capital asset.

Summary

Camloc Fastener Co. settled a lawsuit with its former sales agent, Skipwith, for breach of contract. The IRS disallowed the deduction of the settlement payment, arguing it was a capital expenditure to acquire Skipwith's interest in a patent. The Tax Court held that the settlement payment, except for the portion attributable to unpaid commissions, was a deductible ordinary and necessary business expense. The court reasoned that Skipwith never held a capital interest in the patent, and the payment was to resolve a business dispute, not to acquire an asset. Additionally, the court rejected the IRS's attempt to tax Summers, the company president, on the settlement amount.

Facts

Camloc Fastener Co. (the corporation) engaged Lee Skipwith as its exclusive sales agent. Skipwith's contract purportedly granted him a

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