11 T.C. 101 (1948)

An employer owns patents developed by an employee when the employment agreement explicitly requires the employee to develop and assign such patents, and the employee uses the employer's resources and facilities in the development process.

Summary

Arthur Blum, a mechanical engineer, contested deficiencies in his income tax for 1943-1945, arguing that payments he received from Henry Disston & Sons, Inc. were capital gains from the sale of patents, or alternatively, from the sale of his interest in a joint venture. The Tax Court held that the patents belonged to Disston & Sons under the employment agreement, making the payments ordinary income, not capital gains. The court also addressed the deductibility of certain legal fees and expenses.

Facts

Blum, a mechanical engineer, was employed by Henry Disston & Sons, Inc. to develop power chain saws. His employment contract required him to develop and apply for patents on chain saw features, which would then be assigned to the company. Blum used the company's facilities and resources. He later received payments based on a percentage of net sales of the saws.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Blum's income tax for 1943-1945. Blum challenged this determination in the Tax Court, arguing that the payments received were capital gains, not ordinary income. He also claimed certain deductions. The Tax Court ruled against Blum regarding the nature of the income but allowed some deductions.

Issue(s)

1. Whether payments received by Blum from Henry Disston & Sons, Inc., constituted ordinary income or capital gain representing consideration for the transfer of certain patents.
2. Whether the payments represented consideration for the sale of Blum's interest in a joint venture with Henry Disston & Sons, Inc., and as such, should be treated as capital gain.
3. Whether Blum is entitled to deduct certain amounts alleged to be payments for counsel fees, travel expenses, etc.

Holding

1. No, the payments were ordinary income because the patents became the

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exclusive property of Disston & Sons under the employment agreement.
2. No, no joint venture existed because the patents were owned by the company under the employment agreement.
3. Yes, Blum is entitled to deduct $800 in legal fees and $110 in travel expenses, but not $1,861.33 claimed in connection with the assignment of patents because there was no sale of patents.

Court’s Reasoning

The court emphasized the explicit language of the employment agreement, particularly the provision stating Blum would

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