Amsco-Wire Products Corp. v. Commissioner, 17 T.C. 75 (1951)

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When a taxpayer recovers a debt previously deducted as bad, but the deduction did not result in a tax benefit in the prior year, the recovery is excluded from gross income.

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Summary

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Amsco-Wire Products Corp. deducted a bad debt in 1930 related to the bankruptcy of a customer, Mico Curtain Co. The deduction didn't provide a tax benefit because Amsco already had a net loss that year. In 1945, Robbins, who was associated with Mico Curtain Co., paid Amsco the amount of the old debt. The Commissioner argued that this amount constituted ordinary income to Amsco. The Tax Court held that because the original bad debt deduction provided no tax benefit, the recovered amount was a bad debt recovery exclusion under Section 22(b)(12)(D) of the Internal Revenue Code and was not taxable income.

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Facts

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- In 1930, Amsco-Wire Products Corp. deducted $22,228.17 as a bad debt loss due to the bankruptcy of Mico Curtain Co.

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- The 1930 deduction didn't result in a tax benefit for Amsco because the company already had a net loss that year.

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- In 1945, Robbins paid Amsco $22,228.17, the exact amount of the previously deducted bad debt.

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- Robbins testified that he paid the debt to maintain a good relationship with Amsco and to ensure a continued supply of scarce textile goods.

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- Amsco recorded the payment as a recovery of the Mico Curtain Co. debt.

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Procedural History

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The Commissioner determined that the $22,228.17 received by Amsco in 1945 constituted ordinary income. Amsco petitioned the Tax Court for a redetermination, arguing that the amount was a recovery exclusion of a bad debt under Section 22(b)(12) of the Internal Revenue Code.

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Issue(s)

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Whether the $22,228.17 received by Amsco in 1945 represents a recovery of a bad debt within the meaning of Section 22(b)(12) of the Internal Revenue Code, and therefore excludable from gross income because the original deduction provided no tax benefit.

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Holding

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Yes, because the original bad debt deduction in 1930 did not result in a tax benefit to Amsco, the recovery of that debt in 1945 is a bad debt recovery exclusion under Section 22(b)(12)(D) of the Internal Revenue Code and is not taxable income.

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Court’s Reasoning

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The Tax Court focused on Section 22(b)(12)(D) of the Internal Revenue Code, which defines

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