16 T.C. 1456 (1951)

Income derived from the sale of manuscripts by a professor who regularly writes and publishes books related to his teaching is considered ordinary income, not capital gains, because the manuscripts are deemed property held primarily for sale to customers in the ordinary course of his trade or business.

Summary

Paul Reece Rider, a mathematics professor, sought to treat income from book contracts with publishers as capital gains. The IRS argued it was ordinary income. The Tax Court sided with the IRS, holding that Rider's manuscripts were property held primarily for sale to customers in the ordinary course of his trade or business as a teacher-writer. The court reasoned that Rider's writing was an integral part of his profession, not a mere hobby, and therefore the income derived was ordinary income.

Facts

Rider was a mathematics professor at Washington University since 1917. In addition to his teaching duties, he authored several mathematics textbooks, publishing approximately nine volumes between 1923 and 1947. He entered into contracts with various publishing companies, receiving income from these contracts in 1945, 1946, and 1947. Rider maintained an office in his home for writing and lecture preparation. During the war, he also worked as a consultant for government agencies. From 1935 onward, approximately half of his income came from publications, increasing to over half after 1945.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Rider's income taxes for 1945, 1946, and 1947. Rider challenged this determination, arguing that income from his book contracts should be treated as capital gains. The Tax Court consolidated the cases and ruled in favor of the Commissioner, determining that the income was ordinary income.

Issue(s)

Whether income derived from contracts with book publishers for the sale of manuscripts constitutes ordinary income or capital gains under Section 117(a)(1) of the Internal Revenue Code.

Holding

No, because the manuscripts were property held by Rider primarily for sale to customers in the ordinary course of his trade or business; therefore, the income was not eligible for capital gains treatment.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court reasoned that to qualify for capital gains treatment, the property sold must be a capital asset, meaning it is not property held primarily for sale to customers in the ordinary course of the taxpayer’s trade or business. The court determined that Rider was in the trade or business of being a

© 2025 SCOTUSreports.com. All rights reserved.