Couse v. Commissioner, 4 T.C. 56 (1944)

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The Anti-Assignment Act (41 U.S.C. § 15) prohibits the transfer of government contracts, preventing a corporation from distributing a valuable interest in such contracts to its stockholders upon dissolution for the purpose of creating a depreciable basis.

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Summary

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Couse, the majority shareholder of Couse Laboratories, sought to amortize the value of uncompleted government contracts allegedly distributed to him upon the corporation's dissolution. The Tax Court held that because the Anti-Assignment Act prohibits the transfer of government contracts, the corporation could not legally distribute the contracts' value to its shareholders. Therefore, the newly formed partnership, to which Couse contributed his share of the dissolved corporation's assets, could not claim a depreciable basis in the contracts. The ruling prevents taxpayers from converting ordinary income into capital gains through artificial valuations of non-transferable government contracts.

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Facts

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Couse owned 95% of Couse Laboratories, Inc. The corporation held uncompleted government contracts worth $8,416,746.13. Couse's expertise was crucial to securing these contracts. Upon the corporation's dissolution, Couse reported a capital gain, including his share of an alleged $1,314,506.21 value attributed to the war contracts. Subsequently, Couse contributed his share of the war contracts to a newly formed partnership.r

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Procedural History

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Couse attempted to amortize or depreciate the value of the war contracts in the hands of the partnership, effectively reducing the partnership's taxable income. The Commissioner of Internal Revenue challenged this treatment. The Tax Court reviewed the Commissioner's determination.r

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Issue(s)

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Whether the uncompleted government contracts were effectively distributed to the corporation's stockholders upon dissolution such that the subsequent partnership could acquire a depreciable basis in them.r

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Holding

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No, because Section 3737 of the Revised Statutes (the Anti-Assignment Act, 41 U.S.C. § 15) prohibits the transfer of government contracts or any interest therein, rendering any such transfer void as far as the government is concerned; thus, the corporation could not distribute any valuable interest in the contracts to its shareholders.r

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Court's Reasoning

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The court relied heavily on the Anti-Assignment Act, stating it

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