79 F.2d 697

Punitive damages received by a plaintiff are not considered taxable income under the Sixteenth Amendment.

Summary

This case addresses whether the portion of a monetary award exceeding actual damages in an antitrust suit constitutes taxable income. The petitioner argued that the excess amount ($250,000) awarded above the actual damages ($125,000) was a penalty and, therefore, not taxable. The court concluded that the portion of the award intended as punitive damages is not taxable income, distinguishing it from compensation for lost profits or capital gains. This decision clarified the tax treatment of punitive damages, establishing that they do not fall within the definition of taxable income as defined in *Eisner v. Macomber*.

Facts

The petitioner received a judgment of $375,000 in an antitrust suit, with $125,000 representing actual damages for lost profits. The total award reflected a trebling of the actual damages, as permitted under Section 4 of the Clayton Act. The Commissioner of Internal Revenue argued that the $250,000 exceeding actual damages should be considered taxable income. The petitioner contested, arguing that this portion represented a non-taxable penalty.

Procedural History

The petitioner reported $125,000 as taxable income. The Commissioner determined a deficiency, arguing that the remaining $250,000 was also taxable income under Section 22(a) of the Internal Revenue Code and the Sixteenth Amendment. The Tax Court reviewed the Commissioner's determination to decide the issue of taxability of the excess amount, above the actual damages awarded in the antitrust suit.

Issue(s)

1. Whether the $250,000 awarded in excess of the petitioner's actual damages constitutes a punitive award under the Clayton Act.
2. If the $250,000 award constitutes punitive damages, whether it is taxable income under the Internal Revenue Code.

Holding

1. Yes, because the legislative history and judicial interpretation of the Sherman and Clayton Acts indicate that threefold damages are intended to be partly compensatory and partly punitive.
2. No, because penalties imposed by law do not meet the definition of taxable income as a gain derived from capital, labor, or both combined.

Court’s Reasoning

The court reasoned that while the Clayton Act does not explicitly use the term