***United States Potash Co. v. Commissioner*, 40 T.C. 68 (1963)**

Whether a corporation's recovery on a money judgment constitutes a return of capital or taxable income depends on the nature of the original transaction giving rise to the judgment.

Summary

The case concerns the tax treatment of payments received by United States Potash Co. (the taxpayer) on a money judgment it obtained. The Tax Court addressed whether these payments should be treated as ordinary income or a return of capital. The court found that the judgment, which arose from a settlement agreement where the minority stockholders of a corporation received the judgment and corporate leases in exchange for their stock, constituted a return of capital for the taxpayer, as the taxpayer's basis in the judgment was its fair market value at the time it was acquired. The court distinguished the case from those involving recoveries of lost profits, emphasizing the nature of the underlying transaction.

Facts

Minority stockholders initially obtained a cash judgment against a corporation. To resolve doubts about an appeal, the parties agreed to a final amended judgment where the minority stockholders exchanged their stock for corporate leases and the money judgment. For convenience, the minority stockholders formed United States Potash Co. to which the leases and judgment were directly transferred. The IRS contended that payments on the money judgment were ordinary income because the judgment stemmed from the recovery of lost profits. The taxpayer argued the judgment represented a return of capital.

Procedural History

The case was heard by the United States Tax Court. The Commissioner of Internal Revenue challenged the taxpayer's characterization of payments received on a money judgment. The Tax Court ruled in favor of the taxpayer.

Issue(s)

1. Whether payments received by the taxpayer on the money judgment constituted ordinary income or a return of capital.

Holding

1. No, the payments on the judgment are not to be taxed as ordinary income because they represent a return of capital.

Court's Reasoning

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The court distinguished the case from those where recoveries were deemed to be for lost profits and, thus, ordinary income. The court emphasized the nature of the initial transaction. It viewed the transactions as an exchange or sale by the minority stockholders of their stock for the leases and judgment, or a liquidating dividend by the corporation to the minority stockholders. When the taxpayer received the leases and judgment, they became capital in its hands. The court noted the Federal District Court characterized the transaction as a

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