29 T.C. 850 (1958)

A patent transfer that is terminable at will by the transferor does not qualify as a sale or exchange of a capital asset, and royalty payments received are considered ordinary income.

Summary

The case of *Young v. Commissioner* concerns the tax treatment of royalty payments received by Arthur M. Young from Bell Aircraft Corporation under a patent agreement. The United States Tax Court addressed whether the agreement constituted a sale of Young's patents, entitling him to capital gains treatment, or a license, resulting in ordinary income. The court held that because Young retained the right to terminate the agreement at any time with six months' notice, the agreement was a license, and the royalty payments were taxable as ordinary income. This decision emphasized the importance of transferring all substantial rights to a patent for the transaction to qualify as a sale under tax law.

Facts

Arthur M. Young developed helicopter inventions and held several patents and patent applications. In 1941, Young entered into an agreement with Bell Aircraft Corporation, assigning full rights to his helicopter patents and future inventions. Bell was granted the right to manufacture, sublicense, and grant licenses worldwide. Young was to receive royalties based on sales. The agreement included provisions for termination by either party, with Young having the right to terminate with six months' notice. In 1944, the initial agreement was superseded by a new agreement with similar terms. Young reported the royalty payments as capital gains, which the Commissioner disputed.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioners' income taxes, asserting that the royalty payments were ordinary income. The petitioners contested this determination in the United States Tax Court. The Tax Court upheld the Commissioner's decision, leading to the present ruling.

Issue(s)

Whether the agreement between Young and Bell constituted a sale of patent rights under section 117(q) of the Internal Revenue Code of 1939.

Holding

No, because Young retained the right to terminate the agreement at any time with six months' notice. Therefore, it did not constitute a sale of patent rights under section 117(q).

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court, in its reasoning, analyzed whether the transfer qualified as a sale of patent rights under section 117(q) of the Internal Revenue Code. The court cited that a transfer of

© 2025 SCOTUSreports.com. All rights reserved.