1 T.C. 389 (1943)

The unjust enrichment tax under Section 501(a)(2) of the 1936 Revenue Act applies to total reimbursements less expenses, regardless of whether those reimbursements are includible as net income under Title I of the Act.

Summary

Wilson Milling Co. received reimbursements from vendors for processing taxes included in the price of flour. The Commissioner assessed an unjust enrichment tax on these reimbursements. Wilson Milling argued that the reimbursements were not taxable because they did not constitute net income under Title I of the Revenue Act, as the company had a net loss. The Tax Court held that the unjust enrichment tax applied regardless of whether the reimbursements constituted net income under Title I or whether the taxpayer had an overall net loss. The tax was deemed constitutional as applied to the reimbursements received.

Facts

Wilson Milling Co., an Arkansas corporation, engaged in the milling business. It discontinued wheat milling in 1934 and began purchasing flour from other companies. In 1937, the company received $3,794.92 in reimbursements from vendors for flour purchased in 1935. These reimbursements were related to processing taxes included in the original purchase price under contracts that stipulated a reduction in price if taxes were abated. Wilson Milling operated at a loss in 1935, 1936, and 1937.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wilson Milling's unjust enrichment tax for 1937. Wilson Milling petitioned the Tax Court, arguing that the reimbursements were not subject to the unjust enrichment tax and that, if they were, the tax was unconstitutional.

Issue(s)

1. Whether reimbursements received by a taxpayer are subject to unjust enrichment tax only if they constitute taxable income under Title I of the Revenue Act of 1936.

2. Whether the unjust enrichment tax is unconstitutional if it is construed to impose a tax upon a taxpayer having a net loss under Title I for the same taxable year.

Holding

1. No, because the plain language of Section 501(d) of the Revenue Act of 1936 defines "net income from reimbursements" as the total reimbursements less expenses incurred to obtain them, irrespective of Title I income.

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2. No, because Congress has the power to levy a special income tax upon profit from particular transactions, even if the taxpayer has a net loss under Title I.

Court's Reasoning

The court reasoned that the language of Section 501(d) was clear: the unjust enrichment tax is imposed on net income from reimbursements, calculated by deducting expenses from total reimbursements. The court stated, "The Congressional intent, to tax reimbursements regardless of taxable net income, is clear and unmistakable." The court cited *Sportwear Hosiery Mills, 44 B.T.A. 1026*, affirming that refunds made by vendors to reimburse for a portion of the price paid were taxable under the unjust enrichment tax, even if they could be considered reductions in purchase price. The court also noted that Wilson Milling passed the tax burden on to its customers: "Petitioner's president testified that the cost price used in determining its sales price was the price paid to its vendors, which, of course, included the processing tax. It is apparent that the selling prices were set with a view to recouping the tax burden that had been added to petitioner's cost." The court dismissed the constitutional challenge, citing *United States v. Hudson, 299 U.S. 498* and stating that Congress has the power to levy a special income tax on profit from particular transactions. The court found it immaterial that the petitioner had a net loss under Title I, as it still had "net income or profit from reimbursements in that it received an amount representing taxes paid which it in turn had shifted to others."

Practical Implications

This case clarifies that the unjust enrichment tax is a distinct tax, separate from the regular income tax under Title I of the Revenue Act. It establishes that reimbursements received for excise tax burdens can be taxed as unjust enrichment even if the taxpayer operates at a loss or if the reimbursements would not otherwise be considered taxable income. This decision emphasizes the importance of analyzing the specific provisions of the unjust enrichment tax when determining tax liability related to reimbursements of excise taxes. Later cases must consider the specific language of the applicable tax statutes to determine whether a similar "unjust enrichment" exists, regardless of overall profitability.

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