***ALCO Products, Inc. v. Commissioner, 3 T.C. 159 (1944)***

For purposes of the Vinson Act, which governs excess profits on naval contracts, "completion of the contract" generally refers to the delivery and acceptance of the goods or services contracted for, not necessarily the final payment or the fulfillment of warranty obligations.

**Summary**

ALCO Products sought to offset a loss from a 1935 naval contract against profits from a 1937 contract, both subject to the Vinson Act. The Vinson Act allowed such offsets if both contracts were "completed" in the same year. ALCO argued the 1935 contract wasn't completed until 1938 because of a final payment and a warranty obligation fulfilled that year. The Tax Court disagreed, holding that contract completion under the Vinson Act occurs when the goods/services are delivered and accepted, not when final payment is made or warranty obligations are met. Therefore, the offset was disallowed.

**Facts**

In 1935, ALCO Products entered a contract with the Navy Department subject to the Vinson Act, which limited profits on naval contracts. ALCO incurred a loss on this contract. In 1937, ALCO entered into another naval contract and completed it in 1938, realizing a profit. The 1935 contract included a clause stating it would be considered complete upon final payment. In 1938, ALCO received a final payment of approximately $17,000 withheld for liquidated damages, and $1,000 to correct a previous error. The 1935 contract also contained a clause guaranteeing satisfactory service for two years. In 1938, ALCO replaced defective equipment under this guarantee.

**Procedural History**

ALCO sought to offset the loss from the 1935 contract against the profit from the 1937 contract on its tax return. The Commissioner of Internal Revenue disallowed the offset, arguing the 1935 contract was completed before 1938. ALCO petitioned the Tax Court for review.

**Issue(s)**

1. Whether the contractual language defining completion as "final payment" is controlling for determining completion under the Vinson Act.
2. Whether fulfilling a two-year service guarantee constitutes completion of the contract under the Vinson Act.
3. Whether the Commissioner is estopped from denying completion of the contract in 1938 based on Treasury Decision 4723.

**Holding**

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1. No, because “completion of the contract” is a statutory term, and parties cannot contractually define it to contradict the statute’s intent.
2. No, because a warranty is collateral to the main purpose of the contract, which is the construction or manufacture of a naval vessel.
3. No, because Treasury Decision 4723 is ambiguous and the Commissioner has consistently held that delivery governs the date of completion.

**Court’s Reasoning**

The court reasoned that the Vinson Act imposes a statutory liability for excess profits, and the parties cannot redefine “completion of the contract” to avoid this liability. The court cited *Douglas Aircraft Co., 46 B.T.A. 1025*, reiterating that final payment is not decisive of the date of completion. The court found that the Secretary of the Navy’s agreement to the contract language did not constitute executive construction of the statute. Regarding Treasury Decision 4723, the court stated that it was “not so sufficiently definite and certain as to support the petitioner’s argument.” Citing the Comptroller General’s opinion, the court stated, “There appears no reason to suppose that the Congress used the term ‘completion of the contract’ in any other than its usual sense of completion by the contractor of the contract work.” The court analogized the case to decisions under the Heard Act, which held that “final settlement” (and thus, completion) precedes final payment and relates to administrative determination of the amount due upon completing the work. The court also held that the warranty was collateral to the main purpose of the contract.

Further, the court held that estoppel did not apply because Treasury Decision 4723 was ambiguous and did not provide a plain, positive, and unequivocal statement of fact. The court also questioned whether ALCO actually suffered damages by relying on its interpretation of the Treasury Decision.

**Practical Implications**

This case clarifies that, for Vinson Act purposes, the key event determining contract completion is the delivery and acceptance of the contracted goods/services. Attorneys advising clients subject to the Vinson Act should focus on establishing clear dates of delivery and acceptance, rather than relying on contractual language or subsequent warranty work to define completion. This decision emphasizes the importance of adhering to the statutory purpose over contractual semantics. Later cases applying the Vinson Act will likely cite this ruling to support the proposition that contract completion is determined by the fulfillment of the primary contractual obligations, not ancillary agreements like warranties or guarantees. This case illustrates the principle that administrative interpretations of statutes should be given weight, but contractual redefinitions of statutory terms are not controlling.

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