5 T.C. 1035 (1945)

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A remedial tax statute, intended to provide relief to taxpayers, should be construed liberally in favor of the taxpayer and not applied in a manner that imposes a detriment.

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Summary

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The Colson Corporation sought to compute its excess profits credit under the "growth formula" of Section 713(f) of the Internal Revenue Code. The Commissioner attempted to disallow a bad debt deduction from 1936, arguing it was abnormal under Section 711(b)(1)(J), which would decrease Colson's excess profits credit. The Tax Court held that Section 711(b)(1)(J) is a remedial statute intended for taxpayer relief and cannot be applied to increase a taxpayer's tax liability when the taxpayer has chosen not to demonstrate that the deduction was not a consequence of increased gross income or changes to the business.

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Facts

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The Colson Corporation was formed in 1935 as a successor to The Colson Company, which manufactured specialized articles. In 1924, Colson formed a subsidiary, The Colson Stores Company, to distribute its products. By 1932, Stores was bankrupt and owed Colson $137,912.25. Colson received partial payment, leaving a balance of $92,779.65. Colson deducted this amount as a bad debt in 1936, which was allowed. When Colson sought to calculate its excess profits credit using the growth formula, the Commissioner sought to disallow the 1936 bad debt deduction as abnormal, increasing Colson's tax liability.

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Procedural History

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The Commissioner determined deficiencies in Colson’s declared value excess profits tax and excess profits tax for 1941 and 1942. The Commissioner then amended the answer to increase these deficiencies. Colson appealed to the Tax Court, contesting the Commissioner’s adjustment to the 1936 bad debt deduction.

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Issue(s)

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Whether the Commissioner may invoke Section 711(b)(1)(J) to disallow a bad debt deduction as an abnormality in computing excess profits net income for a base period year when the taxpayer has computed its excess profits credit under Section 713(f) and such action will result in a decrease in the taxpayer’s excess profits credit.

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Holding

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No, because Section 711(b)(1)(J) is a remedial statute designed to provide relief to taxpayers and should not be applied in a way that imposes a detriment, particularly when the taxpayer has not sought to invoke the section’s relief provisions by demonstrating that the deduction was not a consequence of increased gross income or changes to the business.

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Court’s Reasoning

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The court reasoned that Section 711(b)(1)(J) was intended to be a remedial statute, citing *Green Bay Lumber Co., 3 T.C. 824*. Applying it to increase tax liability would be a