Barnett Foundry & Machine Co. v. Commissioner, 47 B.T.A. 1227 (1942)

A deduction is not considered abnormal for excess profits tax purposes if it resulted from an increase in the taxpayer's gross income during the base period.

Summary

Barnett Foundry & Machine Co. sought to have a bonus paid to an officer in the last year of its base period for excess profits tax purposes disallowed as an abnormal deduction. The Board of Tax Appeals ruled against the company, holding that because the company's gross income increased significantly during the base period, and the bonus was likely connected to this increase, the company failed to establish that the bonus's abnormality did not result from the income increase, as required by Section 711(b)(1)(K)(ii) of the Internal Revenue Code.

Facts

Barnett Foundry & Machine Co. paid a bonus to its superintendent in the last year of the base period. The company's gross income increased significantly in that year, reaching approximately $35,000, compared to a maximum of $28,000 in previous years and an average of around $23,000 for the preceding five years. The minutes of the meeting where the bonus was approved indicated that the bonus was considered in light of the company's "very satisfactory" preliminary figures for the fiscal year and in relation to a prior agreement contingent on the company earning "substantial profits."

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Barnett Foundry & Machine Co.'s excess profits tax. The company petitioned the Board of Tax Appeals for a redetermination of the deficiency.

Issue(s)

Whether the bonus paid to the officer could be disallowed as an abnormal deduction under Section 711(b)(1)(J) when the company's gross income increased in its base period.

Holding

No, because the company failed to establish that the "abnormality" of the bonus did not result from the increase in the gross income, as required by Section 711(b)(1)(K)(ii).

Court's Reasoning

The Board of Tax Appeals reasoned that the minutes of the meeting where the bonus

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was approved indicated a connection between the increased income and the decision to award the bonus. The minutes referred to the

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