9 T.C. 495 (1947)

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The Renegotiation Act of 1942 is constitutional, and profits derived from war-related subcontracts, where the end-use is designated for the Army or Navy, are subject to renegotiation to prevent excessive profits.

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Summary

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Grob Brothers, a partnership, challenged the Secretary of War's determination that $70,000 of its 1942 profits were excessive under the Renegotiation Act of 1942. The Tax Court upheld the constitutionality of the Act and found that Grob Brothers' sales to private concerns, designated for Army or Navy end-use, constituted subcontracts subject to renegotiation. The court adjusted the excessive profit determination, considering the inadequate salary allowance for a partner's inventive contributions, and ultimately determined excessive profits to be $60,505.56.

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Facts

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Grob Brothers manufactured machine tools, including metal-cutting hand saws and filing machines. During 1942, their sales totaled $635,130.79. Of this, $48,553.19 was sold to the Defense Plant Corporation, and $402,014.12 was sold to private concerns with the designated end-use for the Army or Navy. The Undersecretary of War determined $70,000 of Grob Brothers' profits to be excessive under the Renegotiation Act.

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Procedural History

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The Secretary of War determined that Grob Brothers made excessive profits. Grob Brothers petitioned the Tax Court, challenging the determination and the

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constitutionality of the Renegotiation Act. The Tax Court reviewed the case, considered stipulated facts and evidence from a related case, and adjusted the determination of excessive profits.

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Issue(s)

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1. Whether the Renegotiation Act of 1942 is unconstitutional.

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2. Whether Grob Brothers' sales to private companies, designated for Army or Navy end-use, constitute subcontracts under the Renegotiation Act.

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3. Whether the Secretary of War correctly determined the amount of Grob Brothers' excessive profits, considering factors such as reasonable compensation for partners and contributions to the war effort.

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Holding

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1. No, because the court previously upheld the Act's constitutionality in *Stein Brothers Manufacturing Co.* and *Ring Construction Corporation*, and the petitioner presented no new arguments.

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2. Yes, because the sales to private concerns with a designated end-use for the Army or Navy fall within the statutory definition of a subcontract as "any purchase order or agreement to perform all or any part of the work or to make or furnish any article required for the performance of any other contract or subcontract."

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3. No, not entirely, because the Secretary of War did not adequately account for the value of Benjamin Grob's inventive contributions and the insufficient salary allowance, warranting a reduction in the excessive profits determination.

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Court’s Reasoning

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The court relied on its prior rulings in *Stein Brothers Manufacturing Co.* and *Ring Construction Corporation,* upholding the constitutionality of the Renegotiation Act. It found that Grob Brothers’ sales qualified as subcontracts based on the stipulation that the end-use of the products was designated for the Army or Navy. The court emphasized the broad definition of

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