Allen v. Commissioner, 12 T.C. 227 (1949)

Compensation based on a percentage of contract value is not subject to renegotiation as a subcontract if it is not contingent upon the procurement of those contracts by the compensated party.

Summary

Allen, a commission agent, received income from two sources: commissions on contracts he procured and commissions based on a percentage of contracts procured by another company, Raymond De-Icer Co. The Commissioner sought to renegotiate Allen's profits, arguing that all income derived from war-related contracts exceeded the $25,000 threshold. Allen contended that the commissions from Raymond De-Icer Co. were not subject to renegotiation because they were not contingent upon *his* procurement of those contracts. The Tax Court agreed with Allen, holding that only income derived from contracts *he* procured was subject to renegotiation, and since that amount was below the threshold, no renegotiation was required.

Facts

In 1943, Allen received $36,598.51 in total compensation. This consisted of $19,131.44 in commissions on contracts he personally procured. He also received $17,467.07 as a commission (4.5%) on contracts procured by Raymond De-Icer Co. of California. The payment from Raymond De-Icer Co. was *not* contingent on Allen procuring any of those contracts.

Procedural History

The Services and Sales Renegotiation Section determined that Allen's profits were excessive. The War Contracts Price Adjustment Board adopted this determination. Allen appealed to the Tax Court, arguing that a portion of his income was exempt from renegotiation. The Commissioner argued that Allen's total income exceeded the statutory minimum, requiring renegotiation. The Tax Court ruled in favor of Allen, finding a portion of his income exempt and the remaining amount below the renegotiation threshold.

Issue(s)

1. Whether compensation based on a percentage of contract value constitutes a "subcontract" under Section 403(a)(5)(B) of the Sixth Supplemental National Defense Appropriation Act, as amended, if that compensation is not contingent upon the procurement of those contracts by the compensated party.

Holding

1. No, because the phrase "determined with reference to the amount of such a

© 2025 SCOTUSreports.com. All rights reserved.

contract or subcontract" must be construed in connection with the preceding language in the statute, which concerns the procurement of contracts by the individual receiving the compensation.

Court's Reasoning

The court relied heavily on its prior decision in *George M. Wolff v. Edward Macauley*, 8 T.C. 146, which addressed a similar issue of statutory interpretation. The court emphasized that the phrase

© 2025 SCOTUSreports.com. All rights reserved.