9 T.C. 824 (1947)

The mailing of a letter by a Price Adjustment District Office requesting information necessary to determine excessive profits constitutes the commencement of renegotiation proceedings under the Renegotiation Act of 1942.

Summary

Spray Cotton Mills sought a redetermination of excessive profits for 1942, arguing the renegotiation proceedings were initiated after the statutory limitations period. The Tax Court addressed whether the War Department's request for financial data triggered the commencement of renegotiation within the meaning of the Renegotiation Act. The court held that mailing the information request commenced the renegotiation, thus the proceedings were not time-barred. This decision clarified the trigger for the statute of limitations in renegotiation cases, focusing on the government's action rather than the contractor's receipt of notice.

Facts

Spray Cotton Mills, a yarn producer, made sales to businesses with war-end uses during 1942, potentially subjecting them to the Renegotiation Act. On December 31, 1943, the War Department assigned Spray Cotton Mills to the Price Adjustment District Office in Greenville, SC, suspecting excessive profits. On the same day, the District Office mailed a letter to Spray Cotton Mills requesting financial and accounting data to determine if excessive profits existed. Spray Cotton Mills received the letter on January 1, 1944. The company later protested the timeliness of the renegotiation, arguing that the proceedings commenced either upon receipt of the letter or at the initial conference.

Procedural History

The Secretary of War determined that $47,500 of Spray Cotton Mills' 1942 profits were excessive. Spray Cotton Mills petitioned the Tax Court, arguing the renegotiation was time-barred under Section 403(c)(6) of the Renegotiation Act of 1942. The Tax Court upheld the Secretary's determination, finding the renegotiation was timely commenced.

Issue(s)

Whether the mailing of a letter by the Price Adjustment District Office requesting information to determine excessive profits constitutes the commencement of renegotiation proceedings within the meaning of Section 403(c)(6) of the Renegotiation Act of 1942, as amended.

Holding

Yes, because the act of mailing the letter requesting necessary information

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constitutes the commencement of renegotiation proceedings by the Secretary of War.

Court's Reasoning

The court reasoned that the ordinary meaning of "commence" is "to have or make a beginning; to originate; start; begin." The court rejected the petitioner's argument that renegotiation commences on the date of the initial conference, or alternatively, upon receipt of the letter. The court emphasized that Section 403(c)(6) refers to renegotiation "commenced by the Secretary." The court distinguished this case from *J.H. Sessions & Son, 6 T.C. 1236*, noting that the letter in *Sessions* was merely a preliminary inquiry, while the letter in this case was a direct request for information necessary to determine excessive profits. The court stated that the letter from the District Office was "a notice of the decision of the Secretary to renegotiate and a demand upon the contractor for the specific information upon the basis of which a determination of excessive profits could be made." By placing the letter in the mail, the Secretary took the first step in setting the renegotiation machinery in motion.

Practical Implications

This case clarifies that the statute of limitations for renegotiation proceedings under the Renegotiation Act of 1942 begins when the government takes concrete action to initiate the process, specifically by requesting information necessary to determine excessive profits. This ruling informs how similar cases should be analyzed by focusing on the government's actions rather than the contractor's receipt of notice or the scheduling of a conference. It impacts legal practice by emphasizing the importance of tracking the date of official requests for information from government agencies in renegotiation contexts. Later cases would likely apply this holding to determine whether renegotiation proceedings were timely commenced, based on when the government initiated the process of seeking information, not when the contractor received notice or when conferences were scheduled.

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