9 T.C. 1254 (1947)

A loss is not considered an abnormal deduction for excess profits tax purposes if the taxpayer has historically experienced similar losses, even if the magnitude of the current loss is greater.

Summary

Armour & Co. sought an adjustment to its excess profits net income for 1938, claiming a loss on a rejected beef shipment to Manila was an abnormal deduction. The Tax Court denied the adjustment, finding the loss was not abnormal in class because Armour regularly experienced smaller losses due to price adjustments for damaged or spoiled products. The court reasoned that the current loss, while larger, was of the same character as these routine losses. The court also found that the taxpayer's recourse against a warranty claim meant the loss was not valid.

Facts

Armour & Co. processed and purchased meats for sale to various customers, including the U.S. Government.
In 1938, a shipment of beef to Manila was rejected.
Armour sold the rejected beef at a loss.
While this was the first time an entire shipment was rejected, Armour routinely made price adjustments for damaged or spoiled products and shrinkage.
In 1940, Armour recouped some of its losses from the processor, Cudahy.

Procedural History

Armour & Co. claimed an adjustment to its excess profits net income on its 1938 tax return due to the loss on the rejected beef shipment. The Commissioner of Internal Revenue disallowed the adjustment. Armour petitioned the Tax Court for a review of the Commissioner's decision.

Issue(s)

Whether the loss on the rejected beef shipment to Manila in 1938 constitutes an "abnormal deduction" under Section 711(b)(1)(J)(i) of the Internal Revenue Code, thus entitling Armour & Co. to an adjustment in computing its excess profits net income for that year.

Holding

No, because the loss was not abnormal to the taxpayer, as Armour & Co. regularly experienced similar, albeit smaller, losses due to price adjustments for damaged or spoiled products and shrinkage.

Court's Reasoning

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The court reasoned that abnormality in class depends on the specific facts of each case. While Armour had not previously experienced a loss from the rejection of an entire shipment, it regularly made price adjustments due to product damage or spoilage.
The court found no logical difference in character between these minor losses and the loss from the rejected shipment, stating they

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