10 T.C. 468 (1948)

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Payments made to settle potential price control violations, even if voluntarily disclosed, are generally not deductible as business expenses or charitable contributions for federal income tax purposes.

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Summary

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Jerry Rossman Corporation voluntarily disclosed to the Office of Price Administration (OPA) that it had inadvertently overcharged customers due to miscalculations in shrinkage allowances under wartime price controls. The company paid $3,330.78 to the U.S. Treasury to settle any potential claims. Rossman sought to deduct this payment as a business expense, a reduction of sales income, or a charitable contribution. The Tax Court disallowed the deduction, reasoning that allowing it would undermine public policy by mitigating the consequences of violating price controls, regardless of the voluntary disclosure.

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Facts

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During the fiscal year ending June 30, 1943, Jerry Rossman Corporation converted rayon and cotton fabrics. Its selling prices were subject to OPA regulations under the Emergency Price Control Act of 1942. Maximum Price Regulation No. 127 governed finished piece goods, using a cost-plus formula that included allowances for shrinkage during processing. The company calculated prices based on shrinkage figures specified in finishers' contracts. In May 1943, Rossman voluntarily informed the OPA that actual shrinkage in some contracts was less than the allowed tolerance, resulting in overcharges. No OPA investigation was underway at the time. The company then paid $3,330.78 to the U.S. Treasury to cover overcharges from August 1, 1942, to May 17, 1943, relating to 775,339 yards of fabric. Total net sales for the year exceeded $1,680,000.r

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Procedural History

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Jerry Rossman Corporation filed its income, declared-value excess profits tax, and excess profits tax returns for the fiscal year ending June 30, 1943. The Commissioner of Internal Revenue disallowed the $3,330.78 deduction. Rossman petitioned the Tax Court, contesting the disallowance.r

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Issue(s)

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Whether a payment made to the Office of Price Administration in settlement of potential claims for price ceiling violations, resulting from voluntary disclosures by the taxpayer, is deductible as a business expense under Section 23(a) of the Internal Revenue Code, as a reduction of sales income under Section 22(a), or as a charitable contribution under Section 23(q).r

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Holding

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No, because allowing the deduction would undermine public policy by mitigating the consequences of violating price control regulations, regardless of whether the disclosure was voluntary.r

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Court’s Reasoning

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The Tax Court relied on its prior decisions in *Scioto Provision Co.*, 9 T.C. 439, and *Garibaldi & Cuneo*, 9 T.C. 446, which disallowed deductions for payments made to settle OPA claims. The court rejected the taxpayer’s attempt to distinguish those

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cases based on the voluntary disclosure, stating that a

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