10 T.C. 1115 (1948)

When calculating excess profits tax credit based on income for the fiscal year ending August 31, 1941, Section 713(f)(7)(B) of the Internal Revenue Code does not authorize reducing excess profits net income for the base period year ending August 31, 1940, by a portion of a deficit in excess profits net income for the base period year ending August 31, 1939.

Summary

Leon and Eddie, Inc. disputed the Commissioner's calculation of its excess profits tax credit for the fiscal year ending August 31, 1941. The Commissioner reduced the excess profits net income for the base period year ending August 31, 1940, by a portion of the deficit from the base period year ending August 31, 1939, arguing it was required by Section 713(f)(7)(B) of the Internal Revenue Code. The Tax Court held that the Commissioner's reduction was not authorized by the statute, which only allows for additions, not subtractions, based on prior year income. The court emphasized that Congress intended to compensate for income reductions due to the National Defense Program, not to further reduce income based on prior year deficits.

Facts

- Leon and Eddie, Inc. filed an excess profits tax return for the fiscal year ending August 31, 1941.
- The excess profits credit was determined using the income-based method.
- The corporation experienced deficits in excess profits net income for the years ending August 31, 1937, 1938, and 1939, and income for the year ending August 31, 1940.
- In calculating excess profits net income for the base period year ending August 31, 1940, the petitioner reduced its actual income by a certain amount per Section 713(f)(7)(A).

Procedural History

The Commissioner determined a deficiency in the petitioner's excess profits tax. The petitioner challenged the Commissioner's calculation method, specifically the reduction of income based on a prior year deficit. The case was brought before the United States Tax Court.

Issue(s)

1. Whether, in computing its excess profits credit under the income-based method, the taxpayer must reduce its excess profits net income for the year ended August 31, 1940, by a portion of a deficit in excess profits net income for the base period year ended August 31, 1939, when applying Section 713(f)(7)(B).

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Holding

1. No, because Section 713(f)(7)(B) authorizes additions to income based on prior year income, not subtractions based on prior year deficits; the statute's language and legislative intent focus on compensating for growth limitations, not penalizing prior losses.

Court's Reasoning

The court focused on the language of Section 713(f)(7)(B), which refers to

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