Dyer Engineers, Inc. v. Commissioner, 10 T.C. 1276 (1948)

A taxpayer can obtain relief from excess profits taxes under Section 722 of the Internal Revenue Code if its average base period net income is an inadequate standard of normal earnings due to temporary economic circumstances unusual in the taxpayer's experience.

Summary

Dyer Engineers, Inc. sought relief from excess profits taxes under Section 722 of the Internal Revenue Code, arguing that its base period income (1936-1939) was abnormally low due to labor's resistance to its wage incentive system. The Tax Court held that the taxpayer demonstrated that its base period income was depressed by temporary economic circumstances unusual to its business, specifically the antagonistic attitude of labor towards the Dyer wage incentive system, and determined a fair and just constructive average base period net income for calculating excess profits taxes.

Facts

Dyer Engineers, Inc. implemented the Dyer wage incentive system, which rewarded workers for exceeding normal output. Prior to and after the base period (1936-1939), the company generally enjoyed satisfactory net income. During the base period, labor unions were hostile to the Dyer system and management was hostile to labor unions. This environment was detrimental to the Dyer system because it requires cooperation between labor and management. This labor antagonism drastically reduced Dyer's income during the base period, resulting in operating losses for 1936, 1938, and 1939.

Procedural History

Dyer Engineers, Inc. petitioned the Tax Court for relief from excess profits taxes under Section 722 of the Internal Revenue Code. The Commissioner of Internal Revenue opposed the petition. The Tax Court reviewed the evidence and arguments presented.

Issue(s)

Whether the petitioner's average base period net income was an inadequate standard of normal earnings because the business of the taxpayer was depressed in the base period because of temporary economic circumstances unusual in the case of such taxpayer, thus entitling it to relief under Section 722(b)(2) of the Internal Revenue Code.

Holding

Yes, because the labor antagonism toward the Dyer wage incentive system

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constituted a temporary economic circumstance unusual in the petitioner's experience, thereby depressing its base period income and warranting relief under Section 722(b)(2) of the Internal Revenue Code.

Court's Reasoning

The Tax Court reasoned that the reaction of labor to newly enacted legislation (National Industrial Recovery Act and Wagner Act) giving labor a more prominent role, rather than the legislation itself, caused the interruption and diminution of the petitioner's normal output. The court distinguished this situation from normal business competition, stating that it was not a matter of competition between the petitioner and labor. The court observed that Dyer Engineers had previously enjoyed complete cooperation from both management and labor. The court emphasized that the petitioner

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