***Dyer Engineers, Inc. v. Commissioner, 10 T.C. 1279 (1948)***

A taxpayer is entitled to relief from excess profits tax under Section 722 of the Internal Revenue Code when its base period earnings are an inadequate standard of normal earnings due to temporary economic circumstances unusual to the taxpayer, such as labor antagonism toward a wage incentive system.

**Summary**

Dyer Engineers sought relief from excess profits tax, arguing that its base period earnings (1936-1939) were abnormally low due to labor antagonism towards its wage incentive system. The Tax Court held that the taxpayer was entitled to relief under Section 722(b)(2) of the Internal Revenue Code because the labor disputes constituted temporary economic circumstances unusual to Dyer. The court rejected the Commissioner's arguments that the legislation granting labor more power was the cause, emphasizing instead labor's reaction to the legislation. The court determined a constructive average base period net income of $30,000.

**Facts**

Dyer Engineers, Inc. implemented a wage incentive system that rewarded workers for exceeding average output. Prior to and after the base period (1936-1939), Dyer enjoyed consistently satisfactory net income. During the base period, labor was vigorously antagonistic towards the Dyer wage incentive system, and management was hostile toward labor, an environment detrimental to the system's success. This antagonism drastically reduced Dyer's income, resulting in operating losses for 1936, 1938, and 1939.

**Procedural History**

Dyer Engineers, Inc. petitioned the Tax Court for relief from excess profits tax under Section 722 of the Internal Revenue Code. The Commissioner opposed the petition. The Tax Court ruled in favor of Dyer, determining a constructive average base period net income to be used for calculating the excess profits tax.

**Issue(s)**

Whether the taxpayer is entitled to relief under Section 722 of the Internal Revenue Code because its average base period net income is an inadequate standard of normal earnings due to temporary economic circumstances unusual in its case.

**Holding**

Yes, because the business of the taxpayer was depressed in the base period due to temporary economic circumstances unusual in the case of the taxpayer, specifically labor antagonism towards the taxpayer's wage incentive system, warranting relief under Section 722(b)(2) of the Internal Revenue Code.

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**Court’s Reasoning**

The court reasoned that the taxpayer had demonstrated that its base period earnings were not representative of its normal earnings due to unusual and temporary economic circumstances. The court emphasized that it wasn’t the enactment of legislation giving labor more power that caused the problem, but rather labor’s reaction to that legislation. The court distinguished between the legislation itself and labor’s immediate reaction to its newly created economic status. The court rejected the Commissioner’s argument that labor was a competitor, stating,

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