11 T.C. 269 (1948)

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The Renegotiation Act aims to eliminate excessive profits derived from government contracts during wartime, considering factors such as efficiency, reasonableness of costs, capital employed, risk assumed, contribution to the war effort, and character of the business.

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Summary

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Thurston Manufacturing Co. challenged the Secretary of War's determination that $125,000 of its 1942 profits from renegotiable contracts were excessive under the Renegotiation Act. The Tax Court upheld the Secretary's determination, finding that Thurston's profits had increased dramatically compared to pre-war years, even considering factors like increased production and the nature of its business. The court emphasized that the Renegotiation Act's primary focus is on profits before federal income and excess profits taxes, with tax credits applied after determining excessive profits. This case clarifies the factors used to assess excessive profits and reinforces the constitutionality of the Renegotiation Act.

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Facts

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Thurston Manufacturing Co., a Rhode Island corporation, manufactured metal-cutting tools. Its sales increased significantly during 1942 due to wartime demand. A substantial portion of its sales were to the government or for war-related purposes, making them subject to renegotiation under the Renegotiation Act. The Under Secretary of War determined that Thurston had realized excessive profits of $125,000 in 1942. Thurston's profits before taxes for 1942 were $283,262.10, a significant increase from its pre-war average. The company leased additional machinery from the government to meet increased demand. The company's products, manufacturing techniques, and prices remained largely unchanged.

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Procedural History

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The Under Secretary of War issued a notice determining excessive profits. Thurston Manufacturing Co. petitioned the Tax Court for a redetermination of excessive profits under Section 403(e) of the Renegotiation Act.

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Issue(s)

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1. Is the Renegotiation Act unconstitutional?

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2. Were the profits received by Thurston Manufacturing Co. from its renegotiable business during the fiscal year ended December 31, 1942,

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