12 T.C. 75 (1949)

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The Tax Court lacks jurisdiction to redetermine excessive profits determined by the Secretary of War when the determination is based on a variance within a previously agreed-upon contract, rather than a unilateral determination under the Renegotiation Act for a complete fiscal year or contract period.

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Summary

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Maguire Industries sought a redetermination by the Tax Court of the Secretary of War's order determining $750,000 of its profits from May to October 1942 as excessive. This order supplemented a prior bilateral agreement specifying $6,000,000 in excessive profits for the fiscal year ending October 31, 1942. The Tax Court, despite both parties' initial agreement on jurisdiction, ultimately dismissed the case, holding that it lacked the statutory authority to review determinations based on a variance within a contract, as opposed to a unilateral determination for a complete fiscal period.

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Facts

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Maguire Industries (formerly Auto-Ordnance Corporation) manufactured Thompson submachine guns. In August 1942, Maguire and the Secretary of War entered into an agreement determining $6,000,000 of Maguire's profits for the fiscal year ending October 31, 1942, as excessive. The agreement allowed the Secretary of War to reopen renegotiation if actual operational results from May 1 to October 31, 1942, varied substantially from estimates. Maguire submitted its actual results in April 1943. The Under Secretary of War, finding a substantial variance, unilaterally determined an additional $750,000 in excessive profits for the May-October period, beyond the initial $6,000,000 agreed upon.

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Procedural History

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Maguire Industries petitioned the Tax Court for a redetermination of the Secretary of War's order. Initially, both parties asserted the Tax Court's jurisdiction. However, the Tax Court, on its own initiative, examined the basis for jurisdiction. The Tax Court ultimately dismissed the case for lack of jurisdiction, leading to this reported decision.

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Issue(s)

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Whether the Tax Court has jurisdiction to redetermine excessive profits when the Secretary of War's determination is based on a variance within a previously agreed-upon contract, rather than a unilateral determination under the Renegotiation Act for a complete fiscal year.

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Holding

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No, because the Tax Court's jurisdiction under the Renegotiation Act extends only to unilateral determinations of excessive profits for a complete fiscal year or contract period, not to adjustments based on contractual provisions allowing for renegotiation due to variances in estimated versus actual results.

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Court's Reasoning

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The Tax Court reasoned that its jurisdiction is limited by Section 403(e) of the Renegotiation Act, which allows it to review determinations made by the Secretary, not embodied in an agreement, regarding excessive profits for a fiscal year. The Court emphasized that the Secretary's determination of the additional $750,000 was explicitly tied to the variance clause in the August 1942 agreement, not a new, independent assessment of excessive profits for the entire fiscal year. The court noted, "To view respondent's action as a determination of excessive profits for any fiscal year would hence fly in the face, not only of the contract of the parties, but

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also of the provision in the October 21, 1942, amendment to the original Renegotiation Act, which commands that 'Any such agreement shall be final and conclusive according to its terms'." The court highlighted legislative history indicating Congress intended to respect bilateral agreements and only provide Tax Court review for unilateral determinations where no agreement existed. The court explicitly stated, "There is no basis in the statute for such a redetermination."

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