13 T.C. 845 (1949)

The determination of whether an individual is a 'full-time employee' versus an independent contractor for purposes of the Renegotiation Act of 1942 depends on whether the employer retains the right to control the manner in which the business is done, not just the result.

Summary

A.P. Dowell, Jr. petitioned the Tax Court for a redetermination of the Secretary of the Navy's order that he realized excessive profits on war contracts during 1942. The central issue was whether Dowell was a subcontractor subject to renegotiation or a 'full-time employee' exempt from it. The court held that Dowell was an independent contractor, not a 'full-time employee,' and therefore, the Tax Court lacked jurisdiction to review the Secretary's order. The decision hinged on the degree of control the Wm. Darkwood Co. had over Dowell's work, as evidenced by their agreement and Dowell's activities.

Facts

Dowell, experienced in the automotive industry, entered an agreement with Wm. Darkwood Co. to handle sales, engineering, and service for bushings needed by Curtiss-Wright. The agreement, formalized in a letter, stated that the 'entire development' and sale of bushings depended on Dowell. Dowell also worked for H. & W. Corporation, representing them with Curtiss, and supervised die sales through an agent. He received income from Darkwood Co., H. & W. Corporation, and die sales commissions. In his tax returns, Dowell described himself as a 'sales engineer self [employed]' and later as a 'manufacturers' agent'.

Procedural History

The Secretary of the Navy determined that Dowell made excessive profits on war contracts during the fiscal year 1942 and 1943. Dowell petitioned the Tax Court for a redetermination. He later abandoned his appeal for 1943 and moved to dismiss that proceeding.

Issue(s)

1. Whether the Tax Court had jurisdiction to review the Secretary of the Navy's determination regarding Dowell's profits under the Renegotiation Act of 1942.

2. Whether Dowell was exempt from renegotiation under the Renegotiation Act of 1942 as a 'full-time employee' of Wm. Darkwood Co.

Holding

1. No, because Dowell was a subcontractor and not a 'full-time employee', the Tax

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Court lacked jurisdiction to review the Secretary's determination.

2. No, because Dowell's relationship with Darkwood Co. was that of an independent contractor, not a 'full-time employee'.

Court's Reasoning

The court determined that the key to defining 'full-time employee' under the Renegotiation Act was the degree of control the employer had over the work. Applying common law principles, the court distinguished between an employee, where the employer controls the manner of work, and an independent contractor, who controls their own methods. The court emphasized the written agreement between Dowell and Darkwood Co., which stated that the 'entire development' of bushing sales depended on Dowell, indicating his autonomy. The court noted Dowell's concurrent work for other companies without objection from Darkwood Co. demonstrated his control over his work schedule and methods. Testimony from other employees that they considered him an 'employee' was considered opinion and not probative evidence of his legal relationship with the company. Because Dowell was an independent contractor, he fell under the definition of 'subcontractor' in the Renegotiation Act, thus precluding Tax Court jurisdiction per Section 403(e)(2).

Practical Implications

This case clarifies the distinction between an employee and an independent contractor in the context of wartime renegotiation acts, emphasizing the importance of the control test. It underscores that simply dedicating significant time to a company does not automatically qualify one as a 'full-time employee.' The written agreement defining the relationship is crucial. Later cases applying the Renegotiation Act would need to carefully examine the contractual terms and the actual working relationship to determine whether sufficient employer control exists to classify someone as an employee rather than an independent contractor or agent. This distinction has significant implications for determining jurisdiction and liability under similar regulatory schemes.

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