14 T.C. 33 (1950)

A closing agreement entered into by the Commissioner of Internal Revenue and a taxpayer is binding and conclusive, absent fraud, malfeasance, or misrepresentation of a material fact, and prevents the Commissioner from later disputing the terms agreed upon.

Summary

Cramp Shipbuilding Co. sought to deduct amortization expenses for emergency plant facilities based on a 33-month period, pursuant to an election under Section 124 of the Internal Revenue Code. The Commissioner initially allowed amortization deductions based on a 60-month period, corresponding to reimbursement payments from the Navy. However, a closing agreement between Cramp and the Commissioner stipulated that Cramp could take amortization deductions under Section 124, provided all requirements were satisfied. The Tax Court held that the closing agreement was binding, and Cramp was entitled to the deductions claimed, as they complied with Section 124 and the stipulated facts.

Facts

Cramp Shipbuilding Co. was incorporated at the request of the U.S. Navy to expand the defense program. Cramp acquired and rehabilitated a shipyard in Philadelphia under two contracts with the Navy. Contract NOd-1550 covered the acquisition and construction of emergency plant facilities, with the Navy to reimburse Cramp for costs in 60 monthly installments. A certificate of necessity was issued for these facilities. Cramp completed the facilities in December 1942, and their adjusted basis was $11,953,714.79. The Navy terminated Contract NOd-1550 in September 1946, and Cramp elected to transfer the facilities to the government.

Procedural History

The Commissioner determined deficiencies in Cramp’s income and excess profits tax for 1942-1945. Cramp challenged the Commissioner’s determination, arguing it was entitled to accelerated amortization deductions based on a 33-month period, not the 60-month period allowed by the Commissioner. The Tax Court severed other issues and focused solely on the amortization deduction issue. The Tax Court ruled in favor of Cramp, holding that the closing agreement was binding.

Issue(s)

Whether a closing agreement entered into between the Commissioner and the taxpayer under Section 3760 of the Internal Revenue Code is binding and prevents the Commissioner from disallowing amortization deductions explicitly contemplated by the agreement, absent fraud, malfeasance, or misrepresentation of a material fact.

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Holding

Yes, because the closing agreement, authorized under Section 3760, is final and conclusive unless there is a showing of fraud, malfeasance, or misrepresentation, none of which were present in this case; therefore, the Commissioner is bound by the agreement's terms regarding amortization deductions.

Court's Reasoning

The court relied on Section 3760 of the Internal Revenue Code, which authorizes the Commissioner to enter into closing agreements regarding tax liability. The statute explicitly states that such agreements are

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