Eastern Gas Transmission Company v. Commissioner, 14 T.C. 133 (1950)

A natural gas company engaged solely in transporting natural gas for hire, without buying or selling the gas, is not entitled to the excess profits tax relief provided by Section 735 of the Internal Revenue Code.

Summary

Eastern Gas Transmission Company sought to exclude certain income from its excess profits tax calculation under Section 735 of the Internal Revenue Code, arguing it was a "natural gas company." The Tax Court ruled against Eastern Gas, holding that Section 735 relief was intended only for companies that both transport and sell natural gas, not those solely providing transportation services. The court emphasized the statute's focus on "units sold" and the absence of provisions for companies that only transport gas.

Facts

Eastern Gas Transmission Company was incorporated in 1936 and operated a natural gas pipeline. Under an agreement with United Carbon Co., Eastern Gas transported natural gas produced by United through its pipelines. Eastern Gas did not buy or sell the gas, nor did it take title to it. Eastern Gas was paid a fee per thousand cubic feet of gas transported. All of Eastern Gas's gross receipts for 1942 and 1943 came from United Carbon Co. under this agreement. Eastern Gas claimed eligibility for excess profits tax relief under Section 735 of the Internal Revenue Code.

Procedural History

Eastern Gas Transmission Company filed its income and excess profits tax returns for 1943 with the Collector of Internal Revenue for the District of West Virginia. The Commissioner of Internal Revenue denied Eastern Gas the benefits of Section 735 in computing "nontaxable income," leading to a proposed deficiency. Eastern Gas petitioned the Tax Court for review of the Commissioner's determination.

Issue(s)

Whether a natural gas company engaged solely in transporting natural gas for hire, without buying or selling the gas, is entitled to the benefits of Section 735 of the Internal Revenue Code, which provides excess profits tax relief to certain mining, timber, and natural gas companies.

Holding

No, because Section 735 was intended to provide relief only to natural gas companies that sell the gas they transport, not those solely providing transportation services for a fee.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court acknowledged that Eastern Gas met the literal definition of a “natural gas company” under Section 735(a)(1). However, the court emphasized that the statute must be construed as a whole, considering all its definitions and provisions. Section 735 defines “natural gas unit” as a “unit of natural gas sold by a natural gas company” and uses this concept to calculate “normal output” and “unit net income.” The court reasoned that the focus on “units sold” indicated that the relief was intended for companies that both transported and sold gas. Since Eastern Gas only transported gas and did not sell it, the court found no basis for computing its nontaxable income under Section 735. The court stated, “Congress obviously intended that only such natural gas companies as sold the gas they transported by pipe lines were entitled to the benefits provided in section 735 of the Internal Revenue Code, supra. It was not the congressional intention to grant such relief to natural gas companies engaged solely in transporting natural gas for hire as was petitioner.”

Practical Implications

This case clarifies the scope of Section 735 of the Internal Revenue Code, limiting its application to natural gas companies that both transport and sell natural gas. It prevents companies that only provide transportation services from claiming excess profits tax relief under this section. The decision highlights the importance of interpreting statutes as a whole and considering the specific definitions and provisions within the statutory framework. This case serves as precedent for interpreting similar tax relief provisions, emphasizing that eligibility depends on meeting all statutory requirements, not just a literal interpretation of a single definition.

© 2025 SCOTUSreports.com. All rights reserved.