

## ***Eastern Equipment Co. v. Commissioner, 16 T.C. 500 (1951)***

A taxpayer cannot claim excess profits tax relief under Section 722 based on the business experience of a related corporation when the affiliated corporation has already used that same experience to calculate its own excess profits credit, as this would result in an unfair duplication of benefits.

### **Summary**

Eastern Equipment Co. sought relief from excess profits tax under Section 722, arguing its average base period net income was an inadequate standard of normal earnings. Eastern Equipment Co. argued that it should be allowed to use the business experience of its corporate brother, a prior owner, in calculating its constructive average base period income. The Tax Court denied the claim, finding that because the related corporation had already used the same business experience to calculate its own excess profits credit, allowing Eastern Equipment Co.'s claim would result in a duplication of benefits. This, the court reasoned, would be contrary to the intent of the excess profits tax laws, which aimed to provide fair and just tax treatment, not to create inequitable advantages.

### **Facts**

Eastern Equipment Co. was in business for only the last six months of the base period. Its prior corporate owner was under complete common ownership and control with the petitioner.

### **Procedural History**

Eastern Equipment Co. contested deficiencies assessed by the Commissioner and claimed an overpayment, seeking relief under Section 722 of the Internal Revenue Code. The Tax Court reviewed the case.

### **Issue(s)**

Whether Eastern Equipment Co. can claim relief under Section 722 based on the prior business experience of a related corporation when that corporation has already used the same experience to calculate its excess profits credit.

### **Holding**

No, because allowing Eastern Equipment Co. to use the related corporation's business experience would result in a duplication of benefits and an unfair advantage, contrary to the intent of Section 722 to provide fair and just tax treatment.

### **Court's Reasoning**

The court reasoned that while Eastern Equipment Co., its transferor, and their common parent are separate legal entities, Section 722 speaks in terms of what is “fair and just.” The court noted that the relief Supplement A furnishes to certain related or successor businesses if they qualify under its terms is identical with what is being proposed here, namely, to employ the base period experience of a predecessor. The court found that the purpose to limit these benefits so as to avoid duplications seems equally clear. The court stated, “When petitioner seeks to use for its constructive average base period income under section 722 the same experience which its corporate brother has already used up under section 713, its attempt to obtain the duplicate benefits for its parent does not seem to us distinguishable from the conduct which *Stone v. White* forbids.” The court emphasized that the figures, based as they are upon the necessary duplication of excess profits credits, could not possibly represent a “fair and just amount,” constituting also the simultaneous constructive base period income of this petitioner.

### **Practical Implications**

This case highlights the importance of considering the overall economic substance of transactions and the relationships between affiliated entities when determining eligibility for tax benefits. Taxpayers seeking relief under Section 722 or similar provisions must demonstrate that their claims do not result in an unfair duplication of benefits. The case also suggests that courts may consider equitable principles when interpreting tax laws aimed at achieving fairness. Practitioners should analyze whether a related entity has already utilized the same business experience to gain a tax advantage. Later cases would likely distinguish situations where the related affiliate refrained from using the earnings or offered to relinquish its portion of the credit.