W.B. Smith & Co. v. Commissioner, 13 T.C. 502 (1949)

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A taxpayer must directly engage in research and development activities extending over a period of more than 12 months to qualify for excess profits tax relief under Section 721(a)(2)(C); activities conducted by a separate predecessor entity do not qualify.

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Summary

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W.B. Smith & Co., a New Jersey corporation, sought excess profits tax relief under Section 721(a)(2)(C) based on research and development activities. The Tax Court denied the relief because the corporation had not existed for 12 months, and the research was conducted by a separate New York corporation before the New Jersey corporation's formation. The court upheld the regulation requiring that the research be conducted by the taxpayer itself, finding it consistent with legislative history. The court rejected the argument that the taxpayer existed de facto prior to incorporation.

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Facts

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A business was initially operated under the name of a New York corporation for several years. The New York corporation was then dissolved. Subsequently, a New Jersey corporation, W.B. Smith & Co. (the petitioner), was formed to continue the same business. The petitioner sought excess profits tax relief, arguing that its research and development activities, when combined with those of the predecessor New York corporation, extended over more than 12 months.

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Procedural History

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W.B. Smith & Co. petitioned the Tax Court for a redetermination of its excess profits tax liability. The Commissioner of Internal Revenue had denied the company’s claim for relief under Section 721(a)(2)(C). The Tax Court reviewed the case to determine if the petitioner qualified for the claimed relief.

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Issue(s)

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1. Whether a taxpayer that has not existed for 12 months can avail itself of the relief accorded by section 721(a)(2)(C) for research and development

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