15 T.C. 625 (1950)

r
r

A manufacturers' representative who earns commissions based on orders for products with a war-related end use can be considered a subcontractor subject to the Renegotiation Act of 1943, and failing to file required statements does not trigger the statute of limitations.

r
r

Summary

r

James Armstrong, a manufacturers' representative, received commissions on orders largely from commercial firms. These orders had a war-related end use because the vendees used the products in government contracts. The War Contracts Price Adjustment Board determined Armstrong was a subcontractor under the Renegotiation Act of 1943 and sought to recover excessive profits. Armstrong challenged this, arguing he was not a subcontractor and that the statute of limitations barred the 1944 claim because he refused to file the required financial statements. The Tax Court held that Armstrong was a subcontractor to the extent of the war-related end use of the products and that his refusal to file the statements did not start the statute of limitations.

r
r

Facts

r

Armstrong operated as a manufacturers' representative, earning commissions on sales of drop forgings and steel castings. He represented several companies, securing orders from customers in his exclusive territory. A large portion of his commissions came from repeat orders, and he didn't solicit government business directly. Many of his commercial customers used the purchased products in fulfilling their own war contracts, leading to a war-related end use. Armstrong's commission rates remained stable, but his overall earnings increased significantly during the war years due to the increased volume of sales related to the war effort.

r
r

© 2025 SCOTUSreports.com. All rights reserved.

Procedural History

r

The War Contracts Price Adjustment Board initiated renegotiation proceedings against Armstrong for 1943 and 1944, determining he had received excessive profits. Armstrong contested the Board's determination in the Tax Court. He argued that he was not a subcontractor under the Renegotiation Act and that the proceedings for 1944 were barred by the statute of limitations because he had refused to file the financial statements required by the Act.

r
r

Issue(s)

r

r

1. Whether Armstrong was a subcontractor within the meaning of Section 403(a)(5)(B) of the Renegotiation Act of 1943.

   r

2. Whether Armstrong's earnings constituted excessive profits under the Renegotiation Act for 1943 and 1944.

   r

3. Whether the renegotiation proceedings for 1944 were barred by the statute of limitations, given Armstrong's refusal to file the required financial statements.

   r

r
r

Holding

r

r

1. Yes, Armstrong was a subcontractor because his commissions were contingent upon procuring contracts for materials that had a war-related end use.

   r

© 2025 SCOTUSreports.com. All rights reserved.

2. Yes, Armstrong’s profits were excessive in the amount of $22,500 for 1943 and $6,750 for 1944, before accounting for tax adjustments.

   r

3. No, the renegotiation proceedings for 1944 were not barred because Armstrong’s refusal to file the required financial statements prevented the statute of limitations from starting.

   r

r
r

Court’s Reasoning

r

The Tax Court reasoned that while Armstrong didn’t directly solicit government contracts, his commissions were tied to sales of materials that ultimately had a war-related end use. This satisfied the definition of a subcontractor under Section 403(a)(5)(B) of the Renegotiation Act. The court emphasized that the statutory definition of a subcontract is extremely broad, encompassing activities directly related to war production, including materials bought primarily for a war-end use. The court cited *Providence Wool Combing Co.*, noting that Congress intended to sweep into the legislation all activities directly related to production for the war-making departments, including articles

© 2025 SCOTUSreports.com. All rights reserved.