16 T.C. 27 (1951)

When a contractor's fiscal year is a fractional part of twelve months, the $500,000 threshold for renegotiation under the Renegotiation Act must be reduced to the same fractional part.

Summary

Glenfield Machine & Tool Company, a partnership, challenged the War Contracts Price Adjustment Board's determination of excessive profits. The partnership argued it was exempt from renegotiation under Section 403(c)(6) of the Renegotiation Act because its renegotiable sales did not exceed $500,000 during its fractional fiscal year. The Tax Court held that because the partnership's fiscal year was less than twelve months, the $500,000 threshold was properly reduced proportionally, and since the partnership's income exceeded this reduced amount, it was subject to renegotiation.

Facts

The first partnership operated from January 1 to February 28, 1945, when a partner withdrew. The remaining partners formed a second partnership on March 1, 1945, which operated until May 23, 1945, when a partner died. Both partnerships received amounts under contracts subject to the Renegotiation Act. The first partnership filed a "Final" return for its period, and the second partnership filed a "First and Final" return. The War Contracts Price Adjustment Board determined that both partnerships realized excessive profits. If subject to renegotiation, the first partnership had $192,290 in renegotiable income, and the second had $304,208.

Procedural History

The War Contracts Price Adjustment Board determined that Glenfield Machine and Tool Company realized excessive profits during two short periods in 1945. Glenfield Machine and Tool Company then petitioned the United States Tax Court challenging the ruling of the War Contracts Price Adjustment Board.

Issue(s)

Whether the $500,000 threshold in Section 403(c)(6) of the Renegotiation Act should be reduced proportionally when a contractor's fiscal year is a fractional part of twelve months.

Holding

Yes, because Section 403(c)(6) explicitly states that if a fiscal year is a fractional part of twelve months, the $500,000 amount shall be reduced to the same fractional part.

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Court’s Reasoning

The court relied on the language of Section 403(c)(6) of the Renegotiation Act, which explicitly requires a proportional reduction of the $500,000 threshold for fiscal years less than twelve months. The court defined “fiscal year” by referencing Section 403(a)(8) of the Renegotiation Act, which in turn references Chapter 1 of the Internal Revenue Code. Section 48(a) of the Internal Revenue Code defines “taxable year” as the period for which a return is made, including returns for fractional parts of a year. The court noted that both partnerships filed returns for specific short periods, indicating a clear intent to treat those periods as their respective fiscal years. Since the renegotiable sales of both partnerships exceeded the pro rata statutory amounts, the court concluded that both partnerships were subject to renegotiation. The Court found that both partnerships were dissolved, wound up and terminated on the ending dates shown on their respective returns. The court stated, “‘Taxable year’ means, in the case of a return made for a fractional part of a year under the provisions of this chapter or under regulations prescribed by the Commissioner with the approval of the Secretary, the period for which such return is made.”

Practical Implications

This case clarifies the application of the Renegotiation Act to contractors with fiscal years shorter than twelve months. It confirms that the $500,000 threshold for renegotiation is not absolute but must be adjusted proportionally for fractional fiscal years. This decision impacts how businesses structure their fiscal years, especially when anticipating significant government contracts. Legal practitioners must consider this proportional reduction when advising clients on compliance with the Renegotiation Act. Later cases applying or distinguishing this ruling would likely focus on specific factual scenarios regarding the establishment and termination of fiscal years, and the nature of contracts subject to renegotiation.

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