16 T.C. 238 (1951)

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A taxpayer cannot retroactively adjust depreciation deductions from prior tax years for the purpose of calculating excess profits credit unless the original deductions were demonstrably incorrect based on facts known or reasonably anticipated at the time they were taken.

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Summary

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Union Screw & Manufacturing Company sought to recompute its excess profits tax credit for 1941-1943 by arguing that depreciation deductions taken in earlier years (1926-1940) were excessive. The company based this claim on a later engineering report that suggested lower depreciation rates. The Tax Court held that the company could not retroactively adjust those deductions because the original deductions were not proven incorrect under the law and facts known or reasonably anticipated during those earlier years. Therefore, the Commissioner's disallowance of the recomputation and the denial of additional depreciation deductions for the tax years in question were upheld.

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Facts

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Union Screw & Manufacturing Co. consistently used the straight-line depreciation method. From 1926-1940, the company claimed certain depreciation deductions. A revenue agent engineer later proposed materially reduced depreciation rates after examining the company's 1935 return. The company then used these lower rates in subsequent tax returns. The company later filed a claim for reduced depreciation for 1931-1933 due to reduced activity during the Depression, acknowledging that the duration of the depression could not have been foreseen. For 1941, 1942, and 1943, the company sought to increase its excess profits credit by arguing that its earlier depreciation deductions were excessive based on the later engineering report.

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Procedural History

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The Commissioner determined deficiencies in the company's income tax and excess profits tax for 1941 and 1943. The company petitioned the Tax Court, contesting the deficiencies, specifically challenging the Commissioner's determination of the excess profits credit. The case proceeded to trial in the Tax Court after stipulations regarding certain facts and issues.

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Issue(s)

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Whether the Commissioner erred in disallowing the petitioner's claim for recomputation of early depreciation deductions under sections 718(a)(4) and 734 of the Internal Revenue Code for the purpose of computing excess profits credit.

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Holding

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No, because the petitioner failed to demonstrate that the depreciation deductions taken in prior years were incorrect under the law and facts known or reasonably anticipated during those years. Therefore, the petitioner is not entitled to additional depreciation deductions in the taxable years.

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Court's Reasoning

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The Tax Court emphasized that under Section 734(b)(2), adjustments are permissible only if the prior treatment

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