16 T.C. 1220 (1951)

The Secretary of War lacked the authority to renegotiate profits on a completed contract basis after the enactment of the 1943 Revenue Act, which mandated renegotiation on a fiscal year basis for years ending after June 30, 1943, and the Tax Court's jurisdiction is dependent on a valid determination of excessive profits by an authorized government agency.

Summary

National Builders, Inc., a joint venture, contracted with the U.S. government to construct part of Camp McCoy. The contract was completed in October 1942, with final payment received August 1943. The joint venture used a cash basis accounting method with a March 31 fiscal year end. After the enactment of the 1943 Revenue Act, the Secretary of War unilaterally determined the venture had excessive profits on the entire contract, disregarding actual payment receipts during a fiscal year ending after June 30, 1943. The Tax Court held the Secretary of War lacked authority to renegotiate profits on a complete contract basis, and because there was no valid determination of excessive profits, the court lacked jurisdiction.

Facts

- National Builders, Inc., B. H. Stahr Company, and A. Hedenberg & Company formed a joint venture on April 7, 1942.
- On April 16, 1942, the venture contracted with the U.S. government to construct part of Camp McCoy, with work to be completed by October 3, 1942. The final contract price was $4,554,733.17.
- The venture used a cash basis accounting method with a fiscal year ending March 31.
- The government paid $4,191,954.84 during the fiscal year ending March 31, 1943, and the remaining $362,778.33 on August 16, 1943, during the fiscal year ending March 31, 1944.
- The Secretary of War initiated renegotiation proceedings in November 1942.

Procedural History

- The Secretary of War unilaterally determined on December 21, 1944, that the venture realized excessive profits of $575,000.
- The petitioners challenged the determination in Tax Court.
- The Secretary of War amended his answer, claiming excessive profits of $800,000.

Issue(s)

1. Whether the Secretary of War had the authority to renegotiate profits on an individual, complete contract basis under the amended Renegotiation Act of 1943.

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2. Whether the Tax Court had jurisdiction to redetermine excessive profits in the absence of a valid determination by an authorized government agency.

Holding

1. No, because the 1943 amendments to the Renegotiation Act restricted the Secretary's authority to renegotiate on a contract basis and mandated renegotiation on a fiscal year basis for years ending after June 30, 1943.
2. No, because the Tax Court's jurisdiction is dependent on a valid determination of excessive profits made by an authorized government agency, and the Secretary of War's determination was invalid.

Court's Reasoning

The court reasoned that the 1943 Revenue Act amended the Renegotiation Act, restricting the "Secretaries"' power to renegotiate profits for fiscal years ending after June 30, 1943, vesting that power in the War Contracts Price Adjustment Board. The Secretary of War's determination was made on a single contract basis after the effective date of the amendments. The court distinguished *Psaty & Fuhrman, Inc. v. Secretary of War*, because in that case, the Secretary's determination was made before the enactment of the 1943 Act. Here, the Secretary of War made his determination on a single contract basis almost eleven months after the passage of the 1943 Act, exceeding his authority. Furthermore, the court emphasized that its jurisdiction is derived from a valid determination by an agency with authority, stating, "It is from a valid determination under the Renegotiation Act that a petition to this Court may be filed." The court concluded it lacked jurisdiction because the Secretary's determination was invalid, and the court could not make an initial determination of excessive profits. As the court stated, "That he failed properly to exercise his authority does not bring about an enlargement of our jurisdiction, and certainly we cannot volunteer to do more than the Congress has authorized us to do."

Practical Implications

This case clarifies the limitations on the Secretary of War's authority to renegotiate contracts after the 1943 amendments to the Renegotiation Act. It emphasizes that renegotiation must be conducted on a fiscal year basis for years ending after June 30, 1943. More importantly, it underscores the principle that the Tax Court's jurisdiction in renegotiation cases is derivative; it can only redetermine excessive profits if a valid determination has first been made by an authorized government agency. This case serves as a reminder to legal practitioners to carefully examine the jurisdictional basis of Tax Court petitions, particularly in specialized areas of law like contract renegotiation, and to ensure that the agency making the initial determination acted within its statutory authority. It also serves as a warning against assuming the Tax Court can cure jurisdictional defects by making initial determinations themselves.

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