Greenfield Co. v. Commissioner, 20 T.C. 432 (1953)

A domestic corporation with a foreign branch must accurately compute foreign income for tax purposes, and the Tax Court can mandate a proper accounting method when the taxpayer's method is demonstrably flawed and inconsistent.

Summary

Greenfield Co., an Ohio corporation, operated a branch plant in Canada using Canadian dollars. The company inconsistently computed its Canadian branch income for U.S. tax purposes during its base period years, leading to discrepancies in its excess profits tax credit. The Tax Court addressed how the Canadian branch's income should be computed in U.S. dollars, holding that the Tax Court can mandate a proper accounting method when the taxpayer's method is demonstrably flawed and inconsistent. The court emphasized the importance of a consistent and accurate accounting method for reflecting income for federal tax purposes and ordered a recalculation of the income using a permissible method.

Facts

Greenfield Co. operated a plant in Ohio and a branch plant in Chatham, Ontario, Canada. The Canadian branch maintained its books and records in Canadian dollars. The company used various methods to convert Canadian dollar income to U.S. dollars for tax reporting, including deducting alleged exchange fluctuation losses. Two exchange rates were in effect after September 16, 1939: an official rate and a free rate. Funds transferred from Canada to the U.S. could use the official rate with approval. The taxpayer's initial returns for the base period years (1937-1940) reported branch income using inconsistent methods of accounting.

Procedural History

The Commissioner determined deficiencies against Greenfield Co. The company challenged the Commissioner's determination in Tax Court. The Tax Court addressed the computation of Canadian branch income for U.S. tax purposes. The Tax Court dismissed the issue for 1941 for lack of jurisdiction.

Issue(s)

1. How should Greenfield Co. compute the income of its Canadian branch in U.S. dollars, considering the branch maintains accounts and records in Canadian dollars?

2. May erroneous treatment of an item in determining taxable income of a base period year be corrected in the computation of the excess profits credit based on income?

Holding

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1. Yes, because when a taxpayer uses a demonstrably flawed and inconsistent method of accounting for foreign branch income, the Tax Court can mandate a proper accounting method to accurately reflect income for tax purposes.

2. Yes, because under Section 734 appropriate adjustments for the tax properly payable in the earlier years will be made and that under the method used petitioner's base period income and its excess profits tax have been erroneously stated.

Court's Reasoning

The court acknowledged that multiple acceptable methods exist for recording the business of a foreign branch. These methods generally fall into two approaches: computing income in the foreign currency and converting it to U.S. dollars, or using a net worth method to account for exchange rate fluctuations. The court noted the taxpayer's inconsistent use of various methods during the base period years, some of which were

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