16 T.C. 1469 (1951)

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To qualify for excess profits tax relief under Section 722(b)(2) of the Internal Revenue Code, a taxpayer must demonstrate that its business was depressed during the base period due to a temporary economic event unusual in its industry, and that the resulting tax is excessive and discriminatory.

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Summary

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Blaisdell Pencil Co. sought relief from excess profits taxes, arguing its base period net income was depressed by a "price war" (a temporary economic circumstance) and that it had committed to a change in its business character. The Tax Court denied relief, finding the alleged "price war" was not a temporary event unique to the industry, but reflected ongoing competition. Furthermore, the court determined the company was only committed to manufacturing standard black lead pencils, limiting any potential reconstruction of income. Because the company's invested capital credit exceeded any potential relief, the court ruled against Blaisdell.

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Facts

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Blaisdell Pencil Co. manufactured paper and wood pencils. It claimed a "price war" in the wood pencil industry during 1935-1939 depressed its earnings. Blaisdell also argued it committed to manufacturing its own raw stock pencils by 1940, changing its business character. Prior, it purchased raw stock pencils from Eagle Pencil Company (its affiliate) and finished them. The company sought to use Section 722 of the Internal Revenue Code to recalculate its excess profits tax liability, claiming its average base period net income was an inadequate standard of normal earnings.

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Procedural History

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The Commissioner of Internal Revenue denied Blaisdell’s application for relief under Section 722. Blaisdell petitioned the Tax Court for a redetermination of its excess profits tax liability for 1942 and 1943.

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Issue(s)

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1. Whether the

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