*17 T.C. 705 (1951)*

Payments made to the Office of Price Administration (OPA) in settlement of price control violations are deductible as ordinary business expenses if the violations were neither willful nor the result of a failure to take practicable precautions.

**Summary**

Pacific Mills paid $2,065,842.02 to the United States in settlement of an OPA claim alleging overcharges on woolen and worsted fabrics. Pacific Mills, when calculating its ceiling prices under Maximum Price Regulation 163, acted in good faith and took practicable precautions. The Tax Court held that this payment was deductible as an ordinary and necessary business expense under Section 23(a)(1)(A) of the Internal Revenue Code, because the overcharges were not willful or due to a lack of reasonable care. This case clarifies the circumstances under which payments to the OPA can be deducted as business expenses.

**Facts**

Pacific Mills, a textile manufacturer, was accused by the OPA of overcharging customers on the sale of woolen and worsted fabrics between June 1942 and October 1944. The overcharges stemmed from Pacific Mills' method of calculating ceiling prices under Maximum Price Regulation 163 (MPR 163). Pacific Mills used the cost of foreign top (combed wool) as its raw material cost and a profit ratio based on the cost of goods sold in 1941. The OPA contended that Pacific Mills should have used the cost of foreign grease wool (raw, unprocessed wool) and a profit ratio based on the cost of goods manufactured in 1941.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in Pacific Mills' excess profits tax for 1944 and 1945, disallowing the deduction of the $2,065,842.02 payment to the OPA. Pacific Mills contested the deficiency for 1944 in the Tax Court, arguing that the payment was a deductible business expense or loss. The Tax Court ruled in favor of Pacific Mills, finding the payment deductible.

**Issue(s)**

Whether a payment made to the Office of Price Administration (OPA) in settlement of a claim for overcharges is deductible as an ordinary and necessary business expense under Section 23(a)(1)(A) of the Internal Revenue Code.

**Holding**

Yes, because Pacific Mills took practicable precautions and acted in good faith when calculating its ceiling prices, and the overcharges were neither willful nor the result of unreasonable lack of care.

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## Court’s Reasoning

The Tax Court relied on the principle established in *Commissioner v. Heininger, 320 U.S. 467 (1943)*, which held that deductions should be allowed unless doing so would frustrate sharply defined public policies. Applying this principle to OPA settlements, the court cited *Jerry Rossman Corp. v. Commissioner, 175 F.2d 711 (1949)*, which reversed a Tax Court decision and allowed the deduction of OPA payments where the violation was neither willful nor the result of a failure to take practicable precautions. The court emphasized that the purpose of the Emergency Price Control Act was not to punish innocent violators. The Tax Court found that Pacific Mills had indeed taken practicable precautions. The court stated, “After a careful consideration of all the evidence we have found that in the instant proceeding petitioner, in good faith and with the exercise of reasonable care, calculated its ceiling prices which it believed were in accordance with MPR 163. The overcharges which it made were not deliberately nor intentionally made.”

## Practical Implications

This case provides guidance on the deductibility of payments made to settle OPA claims. It establishes that such payments are deductible if the taxpayer can demonstrate that the violation was not willful or due to a failure to take practicable precautions. It also shows that the administrative determination is not final; the question of adequate care is to be judicially determined on the merits. This ruling emphasizes the importance of documenting the steps taken to comply with complex regulations and acting in good faith. Later cases applying this ruling would focus on evaluating the taxpayer’s efforts to comply with the OPA regulations and determining whether any violations were the result of negligence or intentional disregard of the law.

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