17 T.C. 1079 (1951)

A taxpayer is not entitled to relief under Section 722 of the Internal Revenue Code if it fails to demonstrate that a constructive average base period net income would result in a credit exceeding the credit already received under the invested capital method.

Summary

Lamport Co. sought relief from excess profits tax under Section 722 of the Internal Revenue Code for the years 1941-1945, arguing that its business was depressed during the base period due to low cotton prices, restricted bank credit, and the introduction of a new product. The Tax Court denied relief, finding that the company failed to prove that a constructive average base period net income would yield a credit greater than what it already received under the invested capital method. The court also questioned the extent to which the alleged factors actually depressed the business and influenced its earnings.

Facts

Lamport Co., a textile wholesaler specializing in off-standard cotton goods, was incorporated in 1941, succeeding a predecessor corporation with the same name. In 1938, the company introduced a new product, the Fall River Bundle, consisting of standardized assortments of quality fabrics. During the base period (1936-1939), Lamport Co. faced financial challenges, including the withdrawal of a line of credit by Chase National Bank due to concerns about excessive inventories and debt. The company also made investments in customer and supplier securities, and had outstanding loans to officers.

Procedural History

Lamport Co. filed applications for relief under Section 722(b)(2), (3), and (4) of the Internal Revenue Code for the years 1941 through 1945. The Commissioner of Internal Revenue denied these applications. Lamport Co. then petitioned the Tax Court for review of the Commissioner’s decision.

Issue(s)

1. Whether Lamport Co. qualifies for relief under Section 722(b)(2) due to its business being depressed by unusually low cotton prices and a reduction in bank credits during the base period.
2. Whether Lamport Co. qualifies for relief under Section 722(b)(3)(B) because conditions in its industry resulted in the base period inadequately representing periods of normal profits.
3. Whether Lamport Co. qualifies for relief under Section 722(b)(4) due to a change in the character of its business during the base period by introducing a new product.

© 2025 SCOTUSreports.com. All rights reserved.

4. Even if Lamport Co. qualifies for relief under Section 722, is it entitled to any actual relief given its existing excess profits tax credits computed on the invested capital method?

Holding

1. No, because Lamport Co. failed to adequately demonstrate that the base period depression was attributable to the decline in cotton prices or that the decline was temporary.
2. No, because the bank's restriction of credit was primarily due to the company's own business policies, not unusual economic conditions beyond its control.
3. No, because the introduction of the Fall River Bundle did not lead to a directly attributable increase in normal earnings.
4. No, because the company did not demonstrate that a constructive average base period net income would produce a credit exceeding the substantial credits it already received under the invested capital method.

Court's Reasoning

The court reasoned that while Lamport Co.'s business was indeed depressed during the base period, the company failed to sufficiently prove that the depression was caused by low cotton prices or temporary economic circumstances. The court noted the bank credit restriction stemmed from the company's own policies, not external economic factors. Regarding the Fall River Bundle, the court stated that any changes were "not reflected in an increased level of normal earnings directly attributable to the change." Furthermore, the court emphasized that even if the company qualified for relief under Section 722, it would not be entitled to any actual benefit unless it could demonstrate a constructive average base period net income large enough to exceed the credit it already received under the invested capital method. The court concluded that the petitioner's

© 2025 SCOTUSreports.com. All rights reserved.