18 T.C. 17 (1952)

A company seeking excess profits tax relief must demonstrate that its tax burden is excessive and discriminatory and that it qualifies under specific provisions like commencing business during the base period or having abnormally low invested capital.

Summary

Springfield Plywood Corporation sought relief from excess profits tax under Section 722 of the Internal Revenue Code, arguing it commenced business during the base period and had abnormally low invested capital. The Tax Court denied relief, finding Springfield Plywood did not commence business until after the base period ended because critical decisions about its structure and operations were not finalized until then. The court also held the company failed to prove its invested capital was abnormally low, especially considering its advantageous relationships with its parent company and a major supplier.

Facts

E.E. Westman conceived the idea to form Springfield Plywood in 1938. Westman consulted with Washington Veneer Company (Veneer Co.) and Booth-Kelly Lumber Company (Booth-Kelly) about building a plywood plant in Springfield, Oregon. Springfield Plywood's articles of incorporation were filed in October 1939. Booth-Kelly began constructing a log pond for the plant shortly thereafter. However, key decisions regarding capitalization, management structure, and sales arrangements were not finalized until early 1940. Actual plywood production did not begin until July 1940.

Procedural History

Springfield Plywood Corporation applied for relief under Section 722 (b)(4) and (c)(3) of the Internal Revenue Code for the years 1940-1944. The Commissioner of Internal Revenue disallowed the applications. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether Springfield Plywood commenced business during the base period (before December 31, 1939) for purposes of qualifying for excess profits tax relief under Section 722(b)(4)?

2. Whether Springfield Plywood's invested capital was abnormally low, thus qualifying it for relief under Section 722(c)(3)?

Holding

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1. No, because the company's organizational structure, capitalization, and operational plans were not finalized until after the base period.

2. No, because the company did not demonstrate that its invested capital was abnormally low compared to similar businesses, especially given the support it received from affiliated companies.

Court's Reasoning

The court reasoned that while the company was technically incorporated in 1939, it had not "commenced business" for the purposes of Section 722(b)(4) before the end of the base period. The court emphasized that critical aspects of the company's operations, such as its capitalization and management structure, were not determined until 1940. Quoting from the opinion:

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