18 T.C. 330 (1952)

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A taxpayer is entitled to relief from excess profits tax under Section 721(a)(2)(C) of the Internal Revenue Code when it receives abnormal income from the sale of products developed through substantial research and experimentation conducted over more than 12 months, even if wartime demand contributed to increased sales.

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Summary

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Ohio Machine Tool Co. sought a refund of excess profits taxes for 1942 and 1943, arguing that its increased income was attributable to the development of two new machine tools: the “Ohio Dreadnaught” and the “Ohio Production” milling machine. The Tax Court held that the company was entitled to relief under Section 721(a)(2)(C) of the Internal Revenue Code. The Court found that the income from the sale of these machines was indeed attributable to research and development efforts spanning several years. It rejected the Commissioner’s argument that the increased sales were solely due to wartime demand, acknowledging that while demand played a role, the inherent improvements in the machines also drove sales. The Court reduced the amount of abnormal income attributable to prior years to account for factors such as management ability and efficient use of plant facilities.

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Facts

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The Ohio Machine Tool Company manufactured and sold planers, shapers, welders, and boring machines. In 1930, the company began research and development to create a new horizontal boring machine (

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