18 T.C. 785 (1952)

The provisions of Code section 710(b)(3) regarding the deduction of unused excess profits credits are mandatory, not elective, in determining adjusted excess profits net income.

Summary

A. Teichert & Son, Inc. challenged the Commissioner's determination of its 1942 income and excess profits tax, arguing that the carry-back of an unused excess profits credit from 1944 was erroneous. The company sought to avoid the carry-back to maximize its post-war refund. The Tax Court held that section 710(b)(3) mandates the deduction of unused excess profits credits, rejecting the taxpayer's argument that it was merely permissive. The court emphasized the plain language of the statute, which defines "adjusted excess profits net income" as the net income minus the unused credit adjustment.

Facts

A. Teichert & Son, Inc. had an unused excess profits credit of $35,661.50 in 1944, which was available as a carry-back to 1942. The Commissioner, in determining the company's 1942 tax liability, took this carry-back into account, which affected the allocation between income tax and excess profits tax due to the 80% limitation under Code section 710(a)(1)(B). The company wanted to disregard the carry-back, as it would increase the excess profits tax and, consequently, the 10% post-war refund under section 780.

Procedural History

The Commissioner determined a deficiency in the petitioner's income tax and an overassessment of excess profits tax for 1942, taking into account the unused excess profits credit carry-back from 1944. The taxpayer, A. Teichert & Son, Inc., petitioned the Tax Court, contesting the Commissioner's determination.

Issue(s)

Whether the provisions of Code section 710(b)(3), providing for the deduction of unused excess profits credits, are mandatory, or whether the taxpayer may elect to apply or disregard an available carry-back of an unused credit.

Holding

No, because the plain language of section 710(b) defines adjusted excess profits net income as "the excess profits net income…minus…the amount of the unused excess profits credit adjustment."

Court's Reasoning

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The court relied on the unambiguous language of section 710(b)(3), stating that adjusted excess profits net income "means the excess profits net income * * * minus * * * the amount of the unused excess profits credit adjustment * * *." The court found no ambiguity that would justify resorting to legislative history or other extrinsic aids. The court stated, "[T]he language being plain, and not leading to absurd or wholly impracticable consequences, it is the sole evidence of the ultimate legislative intent." The court rejected the argument that section 710(b)(3) was a relief provision that should be interpreted to grant the most relief to the taxpayer. The court reasoned that the carry-back provision aimed to diminish excess profits taxes, and the Commissioner's application of the provision was consistent with that objective.

Practical Implications

This case reinforces the principle that tax statutes are to be interpreted according to their plain language when that language is unambiguous. It clarifies that taxpayers cannot selectively apply tax code provisions based on which application is most advantageous, especially when the statute mandates a specific calculation. This case highlights the importance of carefully analyzing the specific wording of tax laws to determine whether a provision is mandatory or elective. While decided under specific excess profits tax laws of the 1940s, the principle regarding the interpretation of unambiguous statutory language remains applicable to modern tax law. It also demonstrates how seemingly beneficial 'relief' provisions must be applied as written, even if the taxpayer believes another approach would yield greater overall tax benefits. Later cases would cite this ruling for the proposition that courts should not seek to rewrite statutes to achieve a perceived equitable result when the statutory language is clear.

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