Island Machine Tool Co. v. Commissioner, 19 T.C. 63 (1952)

Common control exists between two business entities for purposes of contract renegotiation when there is significant overlapping ownership and operational control by the same individuals or family, even if the businesses operate separately.

Summary

Island Machine Tool Company, a partnership, contested a determination that it was subject to renegotiation of its wartime contracts. The Tax Court considered whether the partnership was under "common control" with Island Stamping Company, Inc., a corporation, such that their combined sales exceeded the $500,000 threshold for renegotiation. Although the businesses were separately operated, the court found common control because the same family controlled both entities through ownership and operational roles. The court also determined the amount of excessive profits the partnership realized, considering factors like reasonable salaries and contribution to the war effort.

Facts

Island Machine Tool Company, a partnership, engaged in machining tools for aircraft, while Island Stamping Company, Inc., a corporation, performed welding assemblies for aircraft. The businesses operated in separate buildings and did not perform work for each other. Victor Pechtel was the head of the partnership, while Dwight Chester managed the corporation. Victor Pechtel held 60% of the corporation's stock. Dwight Chester (Pechtel's son-in-law) and Matilda Chester (Pechtel's daughter and Dwight's wife) each held 20% of the stock. The partnership made a substantial loan to the corporation.

Procedural History

The case originated from a determination that Island Machine Tool Company was subject to renegotiation of its wartime contracts due to "excessive profits." The partnership challenged this determination in the Tax Court, contesting both the jurisdictional basis for renegotiation (i.e., the "common control" issue) and the amount of excessive profits.

Issue(s)

1. Whether the partnership, Island Machine Tool Company, was under "common control" with the corporation, Island Stamping Company, Inc., such that their combined sales exceeded $500,000, making the partnership subject to renegotiation.

2. Whether the partnership realized excessive profits during the fiscal year in question, and if so, what was the amount of such excessive profits?

Holding

1. Yes, because Victor Pechtel and his family controlled both the partnership and the corporation through ownership and operational management, establishing common control for renegotiation purposes.

2. Yes, the partnership realized excessive profits in the amount of $80,000, because after considering all evidence, including reasonable salary allowances and the partnership's contribution to the war effort, the court determined that a portion of the profits was excessive.

Court's Reasoning

The court reasoned that the purpose of the

