Hanlon-Waters, Inc. v. Commissioner, 6 T.C. 1232 (1946)

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A renegotiation agreement's terms determine its finality; where the agreement explicitly leaves open the renegotiation of profits for a specific year, the renegotiating authority can later consider income from contracts during that year. Additionally, a mutual agreement to extend the time for determining excessive profits is valid even if signed by the successor corporation after a de facto merger, particularly when the original corporation is dissolved and the successor assumes its liabilities.

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Summary

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Hanlon-Waters, Inc. contested the Commissioner's determination of excessive profits for 1943, arguing that profits from three contracts had been previously renegotiated and that the order determining excessive profits was untimely. The Tax Court upheld the Commissioner's determination, finding that the prior agreement did not preclude further renegotiation of 1943 profits from those contracts and that an extension agreement signed by Hanlon-Waters' successor corporation, General Finance Corporation, was valid despite the de facto merger.

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Facts

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Hanlon-Waters, Inc. engaged in war contracts during 1942 and 1943. A 1943 agreement with the War Contracts Price Adjustment Board (SWEPAB) addressed excessive profits for 1942 and implemented "forward pricing" via a 22.5% refund on certain 1943 contracts. The agreement included a clause allowing the Under Secretary of War to reopen renegotiation under certain conditions. In March 1944, General Finance Corporation acquired Hanlon-Waters' assets, assumed its liabilities, and dissolved the company, operating it as the Hanlon-Waters Division. SWEPAB later reopened renegotiation for 1943. The Commissioner issued a unilateral order determining excessive profits for 1943, including profits from the previously addressed contracts. General Finance Corporation, not Hanlon-Waters, signed an agreement extending the time for the excessive profits determination.

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Procedural History

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The Commissioner determined that Hanlon-Waters had excessive profits for 1943. Hanlon-Waters contested this determination in Tax Court, arguing that some profits had already been renegotiated and that the determination was time-barred. The Tax Court upheld the Commissioner’s determination.

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Issue(s)

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1. Whether the 1943 agreement with SWEPAB constituted a final determination of excessive profits for 1943 derived from the three enumerated contracts, precluding further renegotiation of those profits.

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2. Whether the extension agreement signed by General Finance Corporation was a valid “mutual agreement” that effectively extended the period for determining excessive profits.

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Holding

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1. No, because the 1943 agreement’s terms explicitly stated that the 22.5% refund provision was

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