***Waldorf System, Inc. v. Commissioner*, 7 T.C. 273 (1946)**

The Tax Court granted excess profits tax relief under the variant profits cycle provision because the chain restaurant's business was depressed due to industry-wide conditions, resulting in a profits cycle materially different from the general business cycle.

Summary

Waldorf System, Inc. sought relief from excess profits tax, claiming its business experienced a unique profits cycle different from the general business cycle. The Tax Court examined whether the chain restaurant industry was an industry under the tax code, if Waldorf's business was depressed during the base period due to conditions in that industry, and whether its profit cycle differed materially from the general business cycle. The court determined that the low-priced restaurant chain business constituted a distinct industry and that Waldorf's business experienced a cycle of profits that diverged significantly from the overall economic trend. The court granted relief by calculating a fair base period net income, reflecting its unique industry conditions.

Facts

Waldorf System, Inc., operated a chain of low-priced restaurants. During the tax base period (1936-1939), the company's profits were significantly lower than in previous periods (1922-1935, 1922-1939). The company argued that its industry, low-priced chain restaurants, faced unique challenges, including increased food and labor costs that couldn't be passed on to customers due to consumer resistance. Several other similar chains also suffered during this period, with many forced to reorganize or liquidate. Analysis of earnings patterns showed a strong correlation among chain restaurants, but a weak correlation between the chain restaurants and overall business.

Procedural History

Waldorf System, Inc. petitioned the Tax Court for relief from excess profits tax. The Commissioner of Internal Revenue disputed the claim. The Tax Court reviewed the evidence, including financial data and expert testimony, to determine if Waldorf met the criteria for relief under the relevant sections of the Internal Revenue Code.

Issue(s)

1. Whether the chain restaurant business constituted an

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