***Textron, Inc. v. Commissioner, 29 T.C. 63 (1957)***

When calculating a net operating loss for carryback purposes, the disallowance of accrued interest deductions under the Internal Revenue Code applies only if an excess profits credit was computed under section 714 for the loss year, and not a prior year to which the loss is carried back.

**Summary**

In 1957, the Tax Court addressed whether half of the accrued interest on Textron, Inc.'s 1947 debt should be disallowed when computing its net operating loss for that year, which was then carried back to 1945 to determine the excess profits tax liability for 1945. The Commissioner argued for disallowance based on Internal Revenue Code Section 711(a)(2)(L)(i). The court ruled that the disallowance was improper because no excess profits credit was computed for 1947, the year of the loss. The court emphasized that the relevant statute requires the disallowance of interest only in the computation of the net operating loss for a year if an excess profits credit for THAT year was computed under section 714, not a prior year to which the loss is carried back.

**Facts**

Textron, Inc., a corporation using the accrual method, accrued $41,826.04 in interest in 1947. It also sustained a net operating loss of $306,067.70 in the same year. The Commissioner disallowed 50% of the accrued interest when computing the net operating loss for 1947 to determine the 1945 excess profits tax. Textron claimed no statutory basis for this disallowance.

**Procedural History**

The case originated in the Tax Court, disputing the Commissioner's determination of a deficiency in Textron's excess profits tax for 1945. The central issue was the deductibility of the interest expense in the calculation of the 1947 net operating loss, which was carried back to 1945.

**Issue(s)**

1. Whether the Commissioner was correct in disallowing 50% of the accrued interest deduction for 1947 when computing the net operating loss for that year, which was then carried back to 1945.

**Holding**

1. No, because under I.R.C. § 711(a)(2)(L)(i), the disallowance of the interest deduction applies only if an excess profits credit was computed under section 714 for the year of the loss (1947), which was not the case.

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**Court’s Reasoning**

The court focused on the specific language of Internal Revenue Code § 711(a)(2)(L)(i). This section dictated that the interest deduction should be reduced when computing the net operating loss only if an excess profits credit was computed under section 714 for the tax year in question (1947). The court found that since no excess profits credit could be computed for 1947, the Commissioner’s disallowance was not supported by the law.

The court acknowledged the rationale for the interest deduction limitation, which was tied to excess profits credits based on invested capital under section 714, but noted that this rationale disappeared when no such credit existed for the loss year. The court emphasized that it was not appropriate to engage in the computation of

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