23 T.C. 616 (1955)

To obtain relief from excess profits tax based on a depressed base period, a taxpayer must demonstrate a constructive average base period net income that would result in a lower tax liability than the invested capital method, proving both a qualifying factor and an adequate reconstruction of earnings.

Summary

The Central Iowa Broadcasting Co. sought relief from excess profits taxes, arguing that a prolonged drought depressed its earnings during the base period. While the court acknowledged the drought as a qualifying factor, it denied relief because the taxpayer failed to establish a constructive average base period net income that would yield a more favorable tax credit than the invested capital method it had already used. The court emphasized the need for a reasonable reconstruction of earnings, aligning with the taxpayer's past performance. This case highlights the burden on taxpayers to demonstrate both the existence of a qualifying event and its specific, quantifiable impact on earnings to receive tax relief.

Facts

The Central Iowa Broadcasting Co. (the "petitioner") filed for refunds of excess profits taxes for the years 1942-1945. The petitioner computed its excess profits credits using the invested capital method. However, the petitioner claimed its business was depressed during the base period due to a prolonged drought. Petitioner argued that because of this, its base period earnings were not an adequate measure of its normal earnings, which was a qualifying factor under section 722 of the Internal Revenue Code. Petitioner provided several methods of reconstructing its base period earnings but they exceeded the credit based on invested capital.

Procedural History

The case originated in the United States Tax Court. The petitioner, claiming tax relief under section 722, contested the Commissioner's determination. The Tax Court, after reviewing evidence of the drought's impact and the petitioner's financial data, ruled on the issue of relief under section 722.

Issue(s)

1. Whether the petitioner met its burden of proof to show that the drought constituted a qualifying factor for relief under section 722.

2. Whether the petitioner established a constructive average base period net income that would result in a larger excess profits tax credit than it had already received under the invested capital method.

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Holding

1. Yes, because the evidence presented, including a prior case involving similar circumstances, established the drought as a qualifying factor.

2. No, because the petitioner's proposed reconstructions of its average base period net income did not result in a larger credit than it had already received using the invested capital method.

Court's Reasoning

The court first addressed whether the petitioner's business was affected by the drought, considering the effects of the drought on the petitioner's base period net income. Relying on a prior case, the court found that the drought constituted a "qualifying factor" under section 722. The court then turned to whether the petitioner had established a constructive average base period net income that would result in a lower tax liability than it would have using the invested capital method. The court noted: "Although petitioner was entitled to compute its excess profits tax credits on the basis of earnings during the base period, it chose instead to compute its credits on the basis of its invested capital during the taxable years, because the invested capital method resulted in considerably higher credits.

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