Ainsworth Manufacturing Corporation, Petitioner, v. Commissioner of Internal Revenue, Respondent, 24 T.C. 173 (1955)

A taxpayer granted relief under Section 722(b)(2) may have its unused excess profits credit carry-over computed using the constructive average base period net income, as determined by the court, without specifically pleading it in its claim.

Summary

The Ainsworth Manufacturing Corporation sought a redetermination of its excess profits tax liability. The company and the Commissioner agreed on tax computations for several years. However, they disagreed on the computation of the unused excess profits credit carry-over from 1940 to 1941. The petitioner argued that the carry-over should be calculated using the constructive average base period net income, as previously determined by the court. The Commissioner contended that the taxpayer needed to specifically plead this computation. The Tax Court held for the taxpayer, ruling that because relief was granted under Section 722(b)(2), and no variable credit rule was applicable, the computation of the carry-over was a routine mathematical calculation based on figures already in evidence, making specific pleading unnecessary.

Facts

Ainsworth Manufacturing Corporation filed computations under Rule 50 related to its excess profits tax liability. The parties agreed on computations for 1942, 1943, and 1944. The dispute centered on the computation for 1941, specifically regarding the unused excess profits credit carry-over from 1940. The petitioner had initially claimed the carry-over based on constructive average base period net income when applying for relief for 1941. The Commissioner computed the credit for 1940 based on actual average base period net income, which the petitioner contested.

Procedural History

The case began in the United States Tax Court with a dispute over the calculation of excess profits tax under Rule 50. The court had previously issued Findings of Fact and Opinion. The disagreement between the taxpayer and the Commissioner arose during computations under Rule 50. The Tax Court addressed the specifics of the computation of an unused excess profits credit carry-over from 1940 to 1941, focusing on whether specific pleading was required.

Issue(s)

1. Whether a taxpayer granted relief under Section 722(b)(2) must specifically plead in its petition the computation of an unused excess profits credit carry-over, based on constructive average base period net income, to claim such a computation under Rule 50.

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Holding

1. No, because the computation of the carry-over was a mathematical calculation from figures in evidence and was not subject to the variable credit rule; therefore, specific pleading was not required.

Court’s Reasoning

The court differentiated between the present case and those where the variable credit rule could apply, as discussed in cases such as *Hugo Brand Tannery, Inc.*, *Punch Press Repair Corporation*, and *Charis Corporation*. Those cases involved issues of the amount of credit that might be eliminated under the variable credit rule, which required evidence and pleadings. In contrast, the court found that the present case involved a mathematical computation based on the court’s prior determination of the constructive average base period net income. The court reasoned that because relief was granted under Section 722(b)(2), and because the Commissioner had not shown that the variable credit rule applied, there was no need for specific pleading. The court noted that the Commissioner had never suggested in its regulations or published rulings that any relief under that section is subject to the variable credit rule. As the computation was straightforward, the court concluded that the taxpayer was entitled to the carry-over based on the constructive average base period net income without specifically pleading it.

Practical Implications

This case clarifies the pleading requirements under Rule 50 for computing the unused excess profits credit carry-over when dealing with Section 722(b)(2) relief. Tax practitioners must understand that if the computation is based on already established figures, especially when no variable credit rule applies, specific pleadings for the computation method may not be required. If the taxpayer qualifies for relief under Section 722 (b)(2) and the calculation of the carry-over is a simple mathematical computation from figures in evidence, it is routinely allowed. Attorneys should distinguish this scenario from situations where the variable credit rule applies, which requires specific pleadings and evidentiary support.

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