24 T.C. 552 (1955)

For purposes of excess profits tax relief under Section 722(b)(2) of the Internal Revenue Code of 1939, government actions and long-standing economic conditions, such as currency devaluations and tariff changes, do not constitute "temporary economic circumstances unusual" to a business or industry.

Summary

Seekonk Lace Company sought excess profits tax relief under Section 722(b)(2) of the Internal Revenue Code, claiming its base period earnings were depressed due to the devaluation of the French franc and a reduction in U.S. import duties on French lace. The Tax Court denied relief, holding that these factors were not "temporary economic circumstances unusual" to Seekonk or the lace industry. The court reasoned that currency fluctuations and tariff adjustments were not temporary but were part of the normal economic and governmental landscape. The court emphasized that governmental actions and competition are not the basis for relief under Section 722, especially when the circumstances are not unusual or temporary.

Facts

Seekonk Lace Company manufactured Levers laces. During the base period (1936-1939), the company's sales and profits were allegedly depressed due to competition from French lace manufacturers. This competition was intensified, according to Seekonk, by the devaluation of the French franc, which made French laces cheaper, and by a reduction in U.S. import duties on French laces. These actions resulted in increased French lace imports, which negatively impacted Seekonk's business.

Procedural History

Seekonk filed applications for excess profits tax relief for the taxable years 1941-1945, which the Commissioner of Internal Revenue denied. Seekonk then petitioned the United States Tax Court, seeking a review of the Commissioner's decision. The Tax Court heard the case and rendered a decision against Seekonk, upholding the Commissioner's denial of relief.

Issue(s)

1. Whether the devaluation of the French franc and the reduction in U.S. import duties on French Levers laces constituted "temporary economic circumstances unusual" to the petitioner or the lace industry, as defined under Section 722(b)(2) of the Internal Revenue Code.

2. Whether, if the above-mentioned factors were considered "temporary economic circumstances unusual," petitioner's base period income was sufficiently depressed as a result.

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Holding

1. No, because the devaluation of the French franc and the reduction in U.S. import duties were not “temporary economic circumstances unusual.”

2. Not addressed, because the Court found that the conditions alleged were not “temporary economic circumstances unusual.”

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