***Dixie Shops, Inc. v. Commissioner, 10 T.C. 726 (1948)***

The Commissioner's regulatory power is limited by the intent of Congress, and regulations that contradict or go beyond the statute's purpose are invalid.

**Summary**

Dixie Shops, Inc., sought relief under Section 736(a) of the Internal Revenue Code of 1939, which allowed installment-basis taxpayers to switch to an accrual basis for excess profits tax if they met certain conditions regarding their outstanding installment accounts receivable. The Commissioner, relying on a regulation, included the face amount of accounts receivable sold by the company in its year-end balance, even though the company would have collected or written off most of those accounts in the normal course of business. The Tax Court held the regulation invalid because it exceeded the intent of Congress, which aimed to provide relief to businesses whose installment sales had decreased due to wartime conditions, and did not reflect the company's normal business operations.

**Facts**

Dixie Shops, Inc. was an installment basis taxpayer. The company met the statutory requirement that its average outstanding installment accounts receivable were more than 125% of the amount at the end of the taxable year. However, Dixie Shops had sold a portion of its accounts receivable during the year. The Commissioner, applying a regulation, included the full face value of these sold accounts when determining whether Dixie Shops qualified for relief under Section 736(a).

**Procedural History**

The case was heard by the United States Tax Court. The court determined that the Commissioner's regulation, as applied to the specific facts of the case, exceeded the scope of the statute and was therefore invalid. The court ruled in favor of the taxpayer, allowing them to use the accrual method for excess profits tax calculations.

**Issue(s)**

1. Whether the Commissioner's regulation, which required the inclusion of the full face value of sold accounts receivable in the year-end balance, was a valid exercise of the Commissioner's regulatory authority under Section 736(a).

**Holding**

1. No, because the Commissioner's regulation went beyond the intent of Congress in enacting Section 736(a) and therefore was invalid as applied to the facts of the case.

**Court's Reasoning**

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The court emphasized that Section 736(a) was a relief provision designed to help installment basis taxpayers during the wartime economy. The court examined the legislative history and found that Congress's intent was to help taxpayers who experienced a reduction in installment sales, not to penalize those who, through normal business operations, would not have a reduction in their accounts receivable. The court noted that the sale of the accounts receivable in this case was not the cause of a reduction in accounts receivable in the context of the statute. The court found that, if the company had not sold these accounts, it still would have met the requirements for relief. The regulation required inclusion of the full face value of the sold accounts without any consideration of the company's normal collection practices. The court stated, "It is not within the province of the Commissioner under section 736 (a) to seize upon events abnormal in the course of the taxpayer's business, to ignore its normal business experience, and thereby to deny the relief which it was the manifest intention of Congress by the enactment of that section to grant."

**Practical Implications**

This case illustrates the limits of agency authority in interpreting and applying tax statutes. It underscores that regulations must be consistent with the underlying statutory purpose and intent as expressed by Congress. Practitioners must carefully analyze the legislative history of tax laws and challenge regulations that appear to go beyond congressional intent or create arbitrary distinctions. The decision also illustrates the importance of looking beyond the literal wording of a regulation and considering its impact on the taxpayer's actual business practices. This case is significant for tax lawyers dealing with challenges to tax regulations. It highlights the potential for challenging regulations that are seen as inconsistent with the overall legislative scheme or are overly broad in their application.

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