Frank L. LaPointe Mach. Tool Co., 14 T.C. 776 (1950)

A subcontract, under the Renegotiation Act of 1943, is defined by the nature of the arrangement and its contingency upon procuring government contracts, not by the label the parties give their agreement.

Summary

The case concerns the interpretation of “subcontract” under the Renegotiation Act of 1943. Frank L. LaPointe Machine Tool Co. (LaPointe) employed a firm (the petitioner) as an exclusive sales representative to sell its products, with compensation based on commissions contingent on sales volume. The issue was whether this arrangement constituted a subcontract, making the petitioner’s income subject to renegotiation. The court held that the agreement was a subcontract, because compensation was contingent on the procurement of sales contracts and the services included soliciting contracts. This decision clarified the definition of subcontract under the Act, focusing on the substance of the arrangement rather than the parties’ characterization of it. The case highlights the importance of carefully analyzing contractual relationships to determine their implications under complex regulatory schemes like the Renegotiation Act.

Facts

LaPointe, a machine tool manufacturer, entered into a contract with a firm of engineers specializing in cutting tools. Under the contract, the firm was LaPointe’s exclusive sales representative in a specific territory, providing engineering services and servicing the sold products. The firm’s compensation was in the form of commissions, contingent on the volume of sales made. The firm designed and sold tools, but LaPointe manufactured them. The firm stipulated that all payments from LaPointe were based on contracts or subcontracts with government departments and exceeded $25,000.

Procedural History

The case was heard by the United States Tax Court, where the primary issue was whether the contract between LaPointe and the petitioner constituted a

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